

THE ROAD TO PROSPERITY

BY
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WITH A FOREWORD BY
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FOREWORD

PRIOR to the war, there was a sufficient balance and stability in economic affairs, for a competent economist or observer to have an informed and reasoned opinion upon most important questions of his times. To-day, there are separate problems of industry, finance, and international economico-political relations in each country, so different in magnitude from former times as to be almost different in kind, and they all change their relative positions and importance with bewildering rapidity. It seems impossible for any one person to have a clear grasp of them all. It needs an army of skilled observers, led and generalised by a group of penetrating analytical thinkers, to cope with the merely intellectual problem as a whole satisfactorily. Neither the numbers nor the equipment exist, for there only are a mere handful of writers and thinkers who have a new post-war apparatus of thought and principle sufficiently incisive for the purpose. It needs, too, a position of *practical* power and influence to drive unpalatable truths through the thick undergrowth of particularist interest and prejudice, and the bogs of political obscurantism, into the field of objective reality. This position the handful—some of them moving mainly in academic circles—do not occupy. But hopes now centre in two potent possibilities—the Economic Section of the League of Nations, and the International Chamber of Commerce, at whose conferences rival absurdities which live lusty lives in isolation, may be brought face to face to refute each other, and where competent observation and thinking may get a more powerful leverage on practical affairs and policy.

Sir George Paish has spent his life in economic synthesis, in observation on a wide scale, in discerning underlying tendencies, in seeing the wood without climbing the trees. It is a small matter that probably no fellow-economist would subscribe to every single statement of fact he makes, would endorse every emphasis or support every detailed remedy. It is a great matter that, if the highest common factor were taken of their views, the result would not be widely dissimilar from Sir George Paish's main thesis. It is a still greater matter that, one by one, all our few experienced thinkers who can appreciate broad tendencies, should hack out, however roughly, great slabs of truth, as it appeals to each, for all the world to see.

The several signatories to the recent so-called Bankers' Manifesto, doubtless had no identical body of knowledge, experience or reason which induced them to add their names. They saw varied facts and from different angles, but with the same broad reading of imminent danger. This book is of great value because it shows clearly what was half or fully formulated in the minds of many of them, however different the reasons that actuated others. If they could all be canvassed, the book would represent the consensus of view of a considerable section, and it is no weakness that the other may have had a distinct, though related, economic complex of its own.

Sir George begins by a general review of the situation, proceeds to deal with each country in turn, and then after an examination of the Plea, to point out suggested methods of remedy. In reality, for us there are two points of view nearly connected, but by no means identical. First, there is our national position, and the necessity under which we are placed to live on the income we earn—the actual *produce* of our industry—as distinct from dependence on a mere shifting from one to the other, through rates and

taxes, reliefs, doles and interest, of a production of meagre extent. More material welfare is coming to us all in the long run by a combined effort to produce the most, in the best way, than from a meticulous concern for the problem of "distribution." We need a new social obsession—the high national dividend first of all. After that the divisor and quotient can reasonably engage our attention. The problem is of universal interest, applying not only to the large section who are wage-earners, but also to those who occupy positions outside their ranks.

The second situation is the International. This for some time has been dominated by three factors

(1) Whether America will go on indefinitely exchanging real wealth for promises, in a ledger, of real wealth to be paid back after the crack of doom; for a whole set of commercial tendencies now established are dependent on the continuance of this policy

(2) How long French political hatred of realism could hold out of sight the facts about her capital levy; for there can be no settlement of obligations or stability of European trade until her internal finance problem is settled, and

(3) Whether Russia can be forced by her own economic interest into the path of political sanity

Most other questions are subsidiary to these, but the Plea, round which this book revolves, is a general first "solvent" of them all. Some of the problems need mainly a wider charity and clearer vision. Those at least ought to yield to the dictates of simple sense, and the appeal of larger liberty

J C STAMP

27th January, 1927

THE ROAD TO PROSPERITY

CHAPTER I

THE PRESENT DANGER

THE conclusion of real peace by the treaties of Locarno and the entry of Germany into the League of Nations on terms of complete equality with other great nations, at last renders feasible the task of restoring prosperity to Great Britain, Europe, and the world in general

After a devastating war it was futile to expect restoration as long as the nations were obsessed by feelings of racial and political hatred, but in the new atmosphere of goodwill complete recovery should become possible

The change has come not a moment too soon. The war itself threw the business of the whole world into confusion, and the policies pursued since the war have greatly increased the disorganisation

It is indeed difficult to realise that so much injury can have been caused to the well-being of the nations in so short a period, and

it is abundantly evident that this injury cannot be repaired unless the nations are animated by feelings of goodwill one towards the other. Only by the most whole-hearted and loyal co-operation will it be possible to place the world in a condition of soundness and solvency, again upon the highway which leads to an ever increasing measure of prosperity. Not only must the nations stop their practice of impeding each other's progress, but every one of them must bring its special contribution to the task of restoring and increasing the well-being of all nations. There must be no exceptions in the matter of contribution or of benefit.

The present disorganisation is extraordinarily great. The productive power of a number of nations has been greatly reduced and their buying power correspondingly curtailed. On the other hand the productive power of other nations has been increased, but these nations do not wish to buy the products which other nations need to sell to them in exchange.

Again, the productive power of some nations has neither appreciably increased nor diminished, nevertheless these nations are injured by their inability to sell to the nations

whose productive power has diminished, and which therefore cannot buy to anything like a normal extent, or to the nations whose productive power has increased, but which do not wish to buy from them. In this condition of disorganisation of supply and of markets, credit has been created in great volume to enable buyers in all parts of the world to purchase what they could not otherwise pay for.

The amount of credit is, however, now so large that no great amount of additional credit is warranted. Thus the nations are faced with a situation in which the whole world is over-borrowed and in which both production and markets are still completely disorganised. Increased credit would be warranted if it were for the purpose of providing an effective remedy for the disorganisation, and there were the prospect of so great an expansion of income that individuals, industries and governments would have no difficulty in honouring any new obligations they incurred as well as those for which they are already responsible. At present no such expansion is in sight.

It is quite true that Continental nations have sold their products more freely in recent

months, and have, therefore, been able to buy more freely for cash and not upon credit, but this arises mainly from the British coal-mining dispute, which has caused the Continent to benefit at the expense of Great Britain, an incident of only temporary importance in the general situation.

The need to reduce the wages of British miners and the inability of the British mining industry to sell anything like the quantity of coal it is capable of producing, or which it did produce prior to the war, are the result of the disorganisation from which the world is suffering so seriously. When the dispute is over and the cost of producing British coal is substantially reduced, Continental mining and allied industries will be less able to sell than prior to the trouble, and will become still more impoverished unless action is taken to broaden demand and to expand trade.

Apart from the temporary stimulus given to Continental trade by the British mining dispute, there are few signs of trade revival, and any further great expansion of credit is not warranted under existing conditions. This position is in itself one of the greatest danger. Inability to obtain new credits would restrict

buying and selling power still further at the moment that many Governments, industries and persons are barely able to keep their heads above water. In such a situation the refusal of new credits would induce efforts to be made to collect existing debts and a world crisis of unprecedented proportions would be precipitated.

In view of these dangerous financial conditions on the one hand, and of the improved political atmosphere created by the entry of Germany into the League of Nations on the other, no time should be lost in taking measures which will effectually avert the crisis to which every nation without exception is exposed.

CHAPTER II

UNIVERSAL INDEBTEDNESS

WITH a few notable exceptions, Governments have become severely handicapped by excessive issues of paper money and immersed in debt, both permanent and floating, to an extent which compels them to compound with their creditors either directly or by depreciating their currencies. Again merchants and manufacturers have been compelled to grant credit to their customers so freely that they themselves are heavily in debt. Moreover, their present situation is most difficult. If they do not grant credit they cannot sell their products in sufficient quantity to cover their own expenditures, and if they do grant credit they have great difficulty in making collections. Their customers and themselves are thus placed in danger of insolvency. Probably never was the condition of so many manufacturing, mining and mercantile corporations as precarious as it is to-day. It will be realised that the capital they have sunk in works and plant is of

value only in proportion to the margin of their incomes over their expenditures. If there is no margin and no prospect of a margin, the capital they have spent, no matter how great the amount may be, becomes worthless. To-day in many countries vast quantities of capital expended upon the construction and equipment of factories, mines, dockyards, ships and other appliances are in danger of becoming completely valueless. Were the undertakings, which to-day are unable to pay their way, and to meet their liabilities without assistance, to be closed, millions of workers would be discharged, and the resulting loss of income and buying power would render the situation still more difficult and dangerous. Consequently Governments are endeavouring to assist their industries in one way or another in order to prevent them from closing down. Some are giving direct subsidies or guarantees. Others are allowing their currencies to depreciate in order to keep down real wages and cost of production generally, beneath those of competing nations, and thus to enable factories to secure orders they could not otherwise obtain. And all are seeking by protectionist duties to preserve national markets for home

producers. But none of these measures is more than a momentary palliative, while all of them are making the situation worse—not better. The cheaper goods are produced by subsidies, or low real wages resulting from currency depreciation, the higher become the tariffs of other nations. Indeed the present Governmental policies are assisting to drive the world into insolvency instead of enabling it to expand its income and to liquidate its debts. Therefore the great problem for which a solution must be found without further delay is how to bring about so great an expansion of buying power and of real income that States, institutions, corporations and individuals may have no difficulty in meeting their current expenditures and existing obligations, and may be justified in increasing their expenditures and in incurring additional obligations.

CHAPTER I THE NATURE OF THE CRISIS.

WERE the present crisis merely one of those which come after periods of great trade expansion, the problem would present no serious difficulty. Prices would fall to a level that would encourage fresh enterprise and a new period of construction and of capital investment would be brought about by an abundant supply of banking money and of investment capital. But this is not an ordinary crisis due to the completion of great works of construction such as those of the past. The nations have not just to wait for the benefits to accrue from past capital expenditures, such as were experienced from the immense capital outlays upon new railways in the United States, Argentina and Australia in the 'eighties—expenditures which culminated in the Baring crisis, the currency crisis in the United States, and the banking crisis in Australia in the early 'nineties. The difficulties then arose because the capital expended was not immediately

productive With the lapse of time, however, there was a great expansion in the productive power of all the countries in which such large sums of new capital had been placed, and the borrowing nations were ultimately able not only to honour the whole of their obligations, but were able to obtain large amounts of fresh capital and credit for new works of production. A fresh period of active trade and of expanding income was thus created

The present crisis resembles past crises in so far as great sums of capital have been raised and expended, and now involve large payments of interest and principal. But, unfortunately, the capital has not been expended in creating productive and buying power, but in destroying it, and there is no increasing fund of income out of which to pay interest and principal either in the near or distant future. Expenditures of capital for productive purposes greatly increase income and buying power, but capital expended upon war diminishes production, and by reducing income renders the work of readjustment exceedingly onerous. Moreover, the present crisis to which the disorganisation of production by the war, and the creation of so much credit

during and since the war, have exposed the nations, has been intensified rather than diminished by the imposition upon the vanquished nations of great sums for reparations, sums which swell the indebtedness of the nations to each other and render the creation of new credit a matter of still greater difficulty. At the same time these reparation payments intensify the general disorganisation which the war caused. Commodities are received as reparations from the vanquished countries which formerly were purchased from other countries. These reparations thus injure the countries which would supply the goods under normal conditions.

But what renders the present crisis so essentially different from other crises is that whereas former crises were generally caused by the excessive grant of credit by the lending nations to the borrowing nations, the present crisis arises from the excessive borrowing of the creditor nations themselves

Former crises were generally overcome because there was always a market in the creditor countries for the increased productions of the debtor nations, but in the present crisis the nations which have supplied so much

credit have closed or restricted their markets to the products of the debtors

If to all these differences and difficulties be added the great diminution in the foreign income of what in former days were the creditor and consuming nations, the nature of the crisis will be more fully realised. In pre-war days the European nations, including Great Britain, received a great income on the capital they had supplied to Russia, the United States, and to other countries. At the present moment the Continental nations have lost practically the whole of the income they derived from this source, and are heavily indebted to the United States, while Great Britain has sold the greater part of her American investments, and in addition has to pay a large sum annually as interest and principal upon the credit she obtained from the American Government. The result of this change is that the foreign income of Europe as a whole has been greatly reduced. Europe's income from investments in pre-war days gave her the power of buying a large part of the food and raw material she required to purchase from foreign countries, but as this income has greatly diminished, this food and

material have now to be paid for in some other way. Beyond this, payments have to be made of interest and principal upon credits obtained. Europe's income available for the purchase of food and material has thus been reduced by a very large sum, and inasmuch as it has not been feasible for her, by reason of the tariff policy of the nations, to make this good by increased exports, she still needs to continue to borrow in order to satisfy her needs. But the more Europe borrows the greater are her difficulties and the more dangerous the situation becomes.

Clearly then the present crisis has no resemblance whatever to the ordinary crisis. Nor has it any great resemblance to the crises which followed upon the Napoleonic war or the Franco-Prussian war. Neither in 1816 and the following years nor in the 'seventies of the last century was the whole world one unit as it is to-day. In 1816 the nations were still practically self-contained, and neither needed to nor could obtain from other countries great supplies of foodstuffs, or raw material, or manufactured goods, and the buying power of no nation was appreciably injured by the war. The end of the war meant merely a

reduced demand for war material and war labour. It did not bring great nations to bankruptcy, and it did not result in any general set-back in the standard of life in many nations, such as has resulted from the late war and the policies hitherto pursued. It is true that with the completion of the indemnity payments by France to Germany, the Vienna Krack occurred in 1873, but the trade depression in the 'seventies was relatively unimportant, and no great nation had any difficulty in paying its way or in providing adequate sustenance for its people. Even France was able to pay off the indemnity in two years, and suffered no serious consequences from her defeat. Her productive and her selling powers were uninjured, and her people were able to meet their increased obligations without difficulty.

The present crisis is unique because the nations have become inter-dependent to an extent never before experienced, a condition which causes injury to any one nation to affect all other nations, and which has made the injury to the European countries of a great and long war, together with immense indemnities, felt from one end of the world to

the other. Therefore the present crisis is quite unprecedented in its danger, and in its far-reaching consequences, and urgently demands remedies both fundamental and comprehensive such as were never needed in the past.

CHAPTER IV

THE NEED OF INCOME.

ALL the difficulties in the situation would disappear could an all-round expansion of real income be brought about. It is for lack of adequate real incomes that Governments have so much difficulty in balancing their budgets, it is deficiency of foreign incomes which militates so heavily against the stability of the currencies in the international markets, and it is the decline in national and individual real incomes in many countries which renders so onerous the task of manufacturers, traders, transporters, and others in covering their expenses and meeting their liabilities. It is indeed abundantly obvious that the crisis which confronts the world cannot be solved unless individual, corporation, and national incomes can be greatly increased.

If a general expansion of income cannot be brought about, then it is obvious that the situation will adjust itself by a process of insolvency and liquidation which will reduce

expenditure to the level of the present attenuated income, a process which will involve great suffering to many nations. At the present moment nations, industries and individuals are engaged in meeting difficulties by a policy of restriction, and not by efforts to expand their incomes, a process which can end only in disaster. It seems to be forgotten that the great increase in national and individual well-being in the past has come from the effort of individuals not to reduce their expenditures but to expand their incomes. The trade depression into which Great Britain was thrown in the earlier decades of last century, was overcome by the most strenuous efforts to expand income. The task involved the employment of British capital in all parts of the world, but it was accomplished so effectively that not only was the income of the British people immensely increased, but the income of the rest of the world was in the aggregate expanded in still greater measure.

It also seems to be forgotten that the immense increase in income in the long period prior to the war came from a policy of great courage. Great Britain not only supplied the world with capital, but provided the world

with a free market in which to sell its products in exchange for those of Great Britain and of other countries, a policy that was most extraordinarily successful. In a single century the income of the British people, and the income of the entire world increased nearly sixfold. The British people in their effort to expand their income, did all in their power to remove every obstacle that stood in their way. They discovered that they could not sell their goods abroad without giving credit, and they consequently created a system which enabled them to pay cash for what they bought, and to grant credit facilities for what they sold, thereby removing one of the main obstacles to the process of exchange and the expansion of income. Not only did they do this, but they overcame the physical obstacles which impeded the growth of production, of exchange, and of income by constructing both steamships and railways to enable goods to be transported easily and cheaply between the most distant countries. Furthermore, they created in Great Britain international markets both for credit and for world products of every kind and description. And lastly they developed a system of assurance which en-

abled both goods and ships to move in all parts of the world without danger of loss to their owners.

When this policy is compared with the present policy of the nations of creating every possible obstacle to the international exchange of products, the danger confronting the world will be realised.

The increased income which the world so urgently needs cannot be secured by a policy of restriction, it can come only by removing every obstacle to production and to international exchange.

Thus one of the very first things to be done to preserve the world from bankruptcy is to replace the present pusillanimous policy of the nations by one of courage, and for every nation to sell and to buy freely without restriction or impediment of any kind. If the world's income increased sixfold in the century prior to the war, in spite of all the impediments to production and exchange which remained, how much greater and more rapid would be the expansion of income in future if both the new and the old impediments were removed.

CHAPTER V

UNITED STATES

AT the present moment the trade depression is confined mainly to Europe, including Russia and Great Britain. On the other hand the United States is enjoying a period of unexampled trade activity, while Canada, Australia, Japan, India, and the East generally are more prosperous than in pre-war days. The war-stricken nations are injured, the nations outside the war zone are better off by reason of the increased demand for their products. America in particular has derived immense advantage from the need of Europe to buy freely regardless of price. Not only has she paid off practically the whole of her pre-war debt to Europe, but in a single decade she has lent to the world, and more particularly to Europe, as much as Great Britain lent in a century. In pre-war days the United States were debtor to Europe for more than a thousand millions sterling, now they are practically free of debt and creditor of the world to the extent of over four thousand millions sterling. Instead of needing to export a great quantity of produce in order to make

payment of interest, they are now entitled to receive several times that quantity of foreign goods without payment. Moreover America has accumulated over one-half the world's stock of visible gold, and thus has power to create almost unlimited supplies of banking credit. The world's need of her products has given her the opportunity of supplying food-stuffs, raw materials and manufactured goods to the limit of her willingness to accept payment in goods, in gold, or in securities. Nevertheless the danger which faces Europe also confronts the United States. America's present prosperity is built upon her capacity to sell unprecedented quantities of her products to foreign nations, and a collapse of foreign buying power would be felt from one end of the United States to the other. The great edifice of banking credit created by the accumulation of so much gold, as well as by the greater efficiency given to the previous stock of American gold by the creation of the Federal Reserve Banks, will be in jeopardy. Notwithstanding its vast amount, the great stock of gold in the Federal Reserve Banks, and in the American Treasury to-day represents only about 7% of the liabilities of.

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American bankers, most of which are employed in credit operations of one kind or another. Failure of American cotton planters to sell abroad some 60% of their product, or of the wheat farmers to sell to their foreign customers nearly 25% of their crops, or of the growers of maize to sell abroad a large percentage of their meat products, or of the makers of agricultural machinery, or of motor-cars or of other American specialties, to place abroad a considerable part of their output will greatly reduce the demand in the home market for American products of all kinds and descriptions, thus placing in danger of insolvency not only vast numbers of cotton planters and farmers, but manufacturing industries, and through them the institutions by which so much credit has been granted. That Europe is to-day so heavily in debt and under existing conditions is not justified in increasing its obligations is thus a matter of great moment to the United States. Instead of possessing markets prepared to purchase unlimited quantities of her products at any price, America is face to face with markets not only restricted to the pre-war level, but far below that level. So long as America is

prepared to grant credit, so long she can continue to sell, but the more credit she grants, the greater will be the subsequent contraction in the demand for her goods by reason of the need of her debtors to cease to buy on credit and to make repayment of their indebtedness or of interest thereon. At the present moment America is presenting every possible obstacle to the payment in goods by other countries for her products or of her interest. Moreover in pre-war days she employed a large number of foreign immigrants who maintained their families in Europe by means of the income they earned in the United States, thus giving Europe greater power to pay for American products than otherwise would have been possible. The practical stoppage of European immigration into America means further curtailment of Europe's power to pay for the American products she needs to buy. Furthermore in pre-war days the quantity of American shipping engaged in international trade was negligible, and foreign countries obtained additional power to pay for American products by the shipping services they performed for American merchants and tourists. To-day America has a large fleet of ships engaged in

international trade, and this source of income which gave Europe power to purchase and to pay for American products, has also disappeared.

It is quite true that American tourist expenditures have increased, and that America is buying rubber, raw silk, sugar, coffee, tea and other raw and tropical products more freely. But when these increased purchases are placed against America's increased exports, and against the interest to be received instead of paid, the balance is so largely in America's favour that she is compelled every year to accept payment in securities for very large balances, or she could not dispose of her products. With Europe's and the world's debt to America increasing so rapidly, and with the interest account growing at compound rate, it is abundantly clear that unless steps are taken to enable the world to pay America for her products and her interest, there will be a complete collapse both in Europe's buying power and in America's selling power involving a financial crisis in the United States far more severe than any crisis America has yet experienced. The very greatness of America's present trade activity and the immensity of

the credit now being granted by American bankers and investors, both at home and abroad, will but render the subsequent depression more acute and more far-reaching. To the many millions of unemployed which a collapse in Europe would involve must therefore be added the millions that would become unemployed in America unless a solution of the problems can be discovered.

Thus in spite of her present prosperity America is deeply concerned in the world situation, and must bring her contribution to the solution of the difficulties in her own permanent interest as well as in the interest of her customers and debtors. America cannot remain prosperous in a world not only impoverished, but overwhelmed by debt. The restoration of credit and the increase of world income are as essential to America as to other nations. In view of her productive capacity and her power to grant both short and long credit, the solution of the problems which must be solved depends in no small degree upon American policy. At the present moment her policy, in common with the policy of other nations, is rendering those problems more difficult and more dangerous.

CHAPTER VI

CANADA AND AUSTRALIA

NOR is the position of other outside countries, which have hitherto gained advantage from Europe's need to buy freely, any more assured than that of the United States. The prosperity of Canada has been maintained in recent years by her ability to sell to Europe greatly increased supplies of her products, more especially of wheat, at profitable prices, at the same time that she has borrowed freely from the United States for the extension of her industries and the development of her towns. The continuance of good markets for her products is essential to her solvency in view of her heavy indebtedness both to her own bankers and to the investors of America and of Great Britain. Prior to the war Canada had obtained some £700 millions of capital mainly from Great Britain. To-day, with her population less than 10 millions, her foreign indebtedness to Great Britain and the United States is upwards of £1,000 millions, carrying with it an interest burden which could not be borne if either the demand for, or the price of, Canadian products seriously declined. The collapse of European

buying power bringing with it a fall in world prices, would inevitably re-act upon Canada, and place her in great difficulty. Not only would she be unable to meet her obligations, but she would not be able to sell her products and her distress would be almost as great as that of the European countries. It is of vital moment to Canada that Europe should be prosperous and able to buy her products freely at prices which will encourage farming under Canadian conditions. At the present time, however, Canada is placing every possible impediment in the way of Great Britain and of Europe making payment to her in kind for her products. It is true that Canada grants a preference to British goods, nevertheless the duties upon these goods are still high and greatly interfere with the free development of trade between Great Britain and Canada.

When it is borne in mind that a large part of the grain exported by Canada to the United States is subsequently re-exported to Europe in the form of flour, and that directly and indirectly by far the greater part of Canada's exports are to Great Britain and to Europe, the effect upon Canada of a collapse in British

and European buying power will be obvious. We in Europe need the products of Canada, but if we are to obtain them Canada must be prepared to accept payment in British, European and other foreign products. Canada in common with other debtor countries, needs a great expansion of income to enable her to honour her present obligations and to obtain the additional credit she requires for her development. By pursuing a policy which is impoverishing her best customers this expansion of income cannot be obtained. Only by helping to restore and to increase the permanent buying power of the nations which need Canadian foodstuffs, will it be possible for Canada to expand her income to the extent which her present situation so urgently demands.

And what is true of Canada equally applies to Australia, which in recent years has enjoyed considerable prosperity by reason of her ability to sell her products, and more especially her wool to Europe at high prices, and to borrow from Great Britain great sums of capital for development. The amount of capital now obtained from Great Britain is, however, very large, and it is obvious that if

Australia were to experience any difficulty in selling her wool, wheat, butter, meat and other products to Great Britain and to Europe, not only in full quantity, but at profitable prices, it would become exceedingly difficult for her to meet her obligations. Altogether Australia has borrowed and obtained no less than £700 millions of capital from Great Britain, and inasmuch as the population of Australia is only about six millions, the burden of interest will be realised. Australia needs a rapid and large expansion of income in common with other debtor countries having large obligations.

Nevertheless Australia is sharing in the work of creating impediments to trade, thereby reducing her own selling power and curtailing her own income. Probably at no time was Europe in greater need of wool and wheat from Australia, and never did Australia create so many difficulties to their purchase. It is obvious that both Canada and Australia must make their contribution to the restoration of the world to solvency and to prosperity by removing the obstacles they have created to the rapid expansion of their own and the world's income, in order to maintain their own solvency and their own prosperity.

CHAPTER VII

GREAT BRITAIN

OF the great nations of Europe, Great Britain has been the least damaged materially by the war. Indirectly, however, she is seriously injured by the disorganisation and damage which the war and the policies pursued since the war have caused to world well-being, world trade and world finance. In spite of all that has happened she is still the greatest creditor nation, having no less than £6,000 millions of capital invested in and lent to foreign countries and her over-seas dominions. Against the sale to America of about £500 millions of her American and other securities, and the loan from the American Government of nearly £1,000 millions, she lent during the war to her allies and Dominions about £2,000 millions, and since the war has supplied new capital to Colonial and Foreign nations to the extent of about £600 millions sterling. Even when allowance is made for private purchases of British securities by American investors and bankers since the war,

the amount of British capital abroad is not much less than £6,000 millions gross, and after deducting the British Government's debt to the American Government still amounts to nearly £5,000 millions net, in comparison with £4,000 millions prior to the war. Nor has her productive power been injured, indeed British factories are capable of producing in much greater volume than in pre-war days. Great Britain's difficulties arise in part from injury to world and especially to European and Russian buying power, in part to the strain to which many nations have subjected their credit, which renders the grant of additional credit under existing conditions extremely hazardous, and in part to the policy of so many nations of increasing their productions of manufactures and of restricting their imports. If it be borne in mind that in pre-war days Great Britain was supplying outside countries with nearly £200 millions of new capital and new credit per annum for the expansion of their productive power, and that for the last two years she has supplied on balance none at all, the main cause of the depression in British trade will be apparent. The supply of this capital gave foreign and colonial nations the

capacity to buy great quantities of British goods, and caused British industry to be active and progressive. The restoration of world buying power would bring with it not only a substantial increase in Great Britain's income, but would renew her capacity to supply the world with as much capital as formerly. As matters now stand, however, Great Britain has over 1,000,000 of unemployed, and a large part of her employed are not working full time. Every year the addition to her population renders her unemployment problem more acute. Moreover, with the nations pursuing an intensified policy of restriction upon trade, Great Britain's position is becoming more and more precarious as banker, as manufacturer, and as merchant. The greater the restrictions upon trade the less will it be possible for the nations to honour their obligations, and the fewer British goods will they be willing or able to purchase. Inasmuch as Great Britain with her dense population in a small area cannot become self-contained, a continuance of the world's present policy of trade restriction will inevitably result in a serious reduction of Britain's income and in her power to maintain her people.

Nor is this by any means the whole of the difficulty in which the war and the present policy of the nations have placed the British people. Over a very long period Great Britain has depended upon the United States for the larger part of her supplies of raw material for her great Lancashire cotton industry, as well as for substantial quantities of food-stuffs, of copper and of other products. In pre-war days she was able to pay for these supplies without difficulty, as America had to pay her in return large sums annually for interest upon British capital employed in the United States, for the services of British shipping, for insurance premiums to British fire companies, as well as for American tourist expenditures both in Great Britain and elsewhere. On balance, indeed, Great Britain in spite of the pre-war smallness of her exports to the United States not only paid for all the American products she needed to buy, but was able to lend America large additional sums annually for railway extensions and for other purposes. This position is now completely changed. Great Britain needs American cotton, foodstuffs, copper and other products more than ever, but she can no longer pay for them,

in large part, out of income from interest and shipping. The interest account is now the other way. Instead of having to receive interest amounting to about £30 millions a year from America, Great Britain has to pay £34 millions a year for interest and principal upon her debt to the American Government—a turnover of no less than £64 millions a year to the disadvantage of Great Britain. It is true that British investors still hold about one-third of their pre-war investments in American securities, but on the other hand American bankers and investors now hold at least as many investments in British securities and British bills which they have purchased privately. Beyond this great diminution of income from interest, Great Britain's income from shipping services rendered to America has seriously declined, as America during the war built ships for herself. As long as America lends freely to the world, and thus gives the nations greater buying power than otherwise they would have, Great Britain will be able to continue to buy from America and to sell to other nations. But should anything occur to cause American investors and bankers to stop their loans to foreign countries, Great

Britain's position would become most precarious. It was, indeed, the difficulty she experienced in paying in American dollars for the great quantities of American produce she needed to buy during the war, that necessitated the sale or mortgaging of her American securities in the first place, and her large loans from the American Government in the second. As this difficulty continued after the American Government stopped lending to the British Government, a great fall occurred in the dollar value of the British pound. The subsequent recovery in the value of the British pound to parity was brought about by American purchase of British securities at their depreciated gold values, and by the resumption of liberal loans of American money both to the world and to London which enabled Great Britain to meet without difficulty her payments to America for produce and for interest. In 1925 Great Britain's imports from the United States amounted to £247 millions, while the exports of her own products to America were only £53 millions, and her re-exports of foreign and colonial produce were no more than £31 millions. Thus she bought from America £163 millions of goods more

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than she sold in return. And beyond this, instead of having to receive from America £30 millions for interest, as in pre-war days, she had to pay to America £34 millions for interest and principal on the British Government's loan from the American Government. The total adverse balance on trading, banking and investment account of Great Britain with the United States was in 1925 not much less than £200 millions. Great Britain was able to secure enough American exchange to meet this payment, because America in 1925 lent upwards of \$1,000 million or £200 million sterling to the world on investment and banking account. This gave the world power to pay Great Britain for goods, interest, and services, and consequently the latter was able to pay America the sum due.

But what would happen if America would neither give credit to the world nor purchase sufficient foreign products in exchange for her own products? The world is getting ever deeper in debt to America, and America is opposed even as a creditor country to take payment in foreign goods either for her products or for sums due to her for interest or principal. As the need increases of Europe

and of Great Britain to pay not only for necessary supplies of American food, cotton, copper and other products, but also for interest on, and principal of money borrowed, so the American tariff and immigration laws are rendered more stringent. The ultimate consequence of this policy is obvious. Either America must take payment freely in foreign goods or Europe in general and Great Britain in particular, will be unable to buy her products or to pay the sums due to her. The effect of a continuance of the present American policy upon British prosperity would be especially grave and momentous. It is true that Great Britain is endeavouring to reduce her dependence upon America for necessary supplies of raw material by promoting cotton production in the Soudan and elsewhere, but these supplies cannot be adequately increased for an indefinite period. In the meantime Great Britain remains exposed to grave danger. While the continued unwillingness of America to accept payment of her products in foreign goods will reduce the cotton planters and farmers of America to poverty, it will, if continued, involve Great Britain and Europe in disaster.

Although Great Britain has not been as materially injured by the war as the other great nations of Europe, she has been placed in a dangerous situation, and must do all that lies in her power to remedy the present great disorganisation of world production, trade, and credit by seeking more ardently than ever to expand the world's income, and the world's buying power, and thus to increase her own income and her own buying power as her population expands.

CHAPTER VIII

FRANCE

THE nation which suffered physically the greatest injury from the war was France who in her effort to repair her devastations has burdened herself with a volume of indebtedness far beyond her capacity to honour and who, consequently, has been compelled to depreciate her currency in order to avoid complete bankruptcy. Moreover the productive power of France has been injured by the sacrifice in the war of a very large percentage of her male population. The effect of this has been felt by most of her industries, and more especially by her agricultural industry, the output of which was reduced in the war by about 40%, and which, owing to the lack of men, has not recovered to its pre-war volume. Even after every allowance is made for the re-acquisition of Alsace-Lorraine it is evident that the productive power and real income of France have seriously declined. Moreover, her internal injuries have been greatly accentuated by her ex-

ternal losses. In pre-war days France owned about £1,500 millions of good foreign investments; to-day almost the whole of these have been sold, lost, or pawned. Most of the money was invested in Russia and in Europe, and practically none of the nations in which these investments were made can honour either their war or their pre-war obligations. Beyond this France has incurred a foreign gold debt of about £1,500 millions. It is true that she is entitled to 52% of any sums paid by Germany for reparations. The value of this asset is, however, highly problematical. At present Germany is paying the annual sums specified in the Dawes Report, but in order to make these payments she has been compelled to borrow much greater sums from America and Great Britain. It is most unlikely that the Transfer Committee will ever be able to remit the larger sum of £122½ millions a year which Germany is to be asked to pay from 1928 onwards, and it is very doubtful if France will ever receive from reparations more than about £30 millions a year, a sum no more than sufficient to meet the interest and principal on her debt, public and private, to America and Great Britain, and affording no offset to

her loss of income from foreign investments. Thus the situation of France at the present moment is that she is over-burdened with debt both home and foreign, that her productive power has declined, and cannot be re-established without the expenditure of large additional amounts of capital, that her income from foreign investments has disappeared on the one hand, while she has to make substantial foreign payments of interest on the other, and that her receipts from reparations are problematical. And this, too, with the whole world engaged in a policy of trade restriction which is handicapping France in her effort to recover and expand her export trade. The number of visitors to France is just now very large, and their expenditures are considerable, but these expenditures may not be nearly so large when the franc is stabilised and prices in France correspond more nearly to prices in other countries on a gold basis. And stabilisation has now become a matter of urgent necessity if complete demoralisation of the franc is to be averted. When it is borne in mind that all the great towns of France depend for their prosperity upon the world's luxury expenditures, and

that as events are moving, with the world so heavily in debt (and pursuing a policy of intense trade restriction, the sums available for luxuries are likely to show great diminution, it will be abundantly evident that the present position of France is not only causing much anxiety both at home and abroad, but that her future is regarded with something like dismay. Clearly the interests of France demand measures that will maintain and increase the world's income, and thus enable France to sell her articles *de luxe*, her silk products and her other specialities, and to attract foreign visitors in increasing numbers.

But the measures which France has hitherto ardently supported cannot have this result. It is quite true that import duties have not been raised in France in greater proportion than in other countries, but the depreciation of the franc has had much the same effect. It has made French goods, both in France and outside, relatively cheap, and has made foreign products dear in France. With the recent effort to give stability to the franc, French import duties have been substantially increased. The time has come when the whole policy of France must be changed. In order

to save herself from great poverty she must seek as never before to promote and increase world trade and world income in order that her own real income may show such substantial increase that she will be able to honour her obligations in much greater measure than at present, and to permit her people to enjoy a higher and not a diminished standard of well-being. In modern times France has fought against merging her interests and those of her Empire in the common interests of the world, with the result that her income and her population have shown but small expansion in comparison with other great nations. France must now adopt an international policy in place of a purely national policy, or sink deeper into the financial and economic morass from which she is now endeavouring to extricate herself. If France will bring her contribution to the restoration of the world, then it will be possible for the world to bring its contribution to the restoration of France.

CHAPTER IX

ITALY

THE problem confronting the people of Italy is in many respects similar to the British problem. Italy was not seriously hurt by the war, and has had no difficulty in repairing her physical injuries. Her devastations have been repaired, and the natural growth of her population has already much more than made good her losses in killed and permanently injured. Her problem arises from the general disorganisation which the war and the policies pursued since the war have caused. With the population of Italy increasing at the rate of nearly 500,000 a year, she finds herself confronted with restrictive tariff and immigration laws throughout the world, which prevent her from selling her products in the quantities essential to her growing population, or from emigrating her people in the manner she was able to do in pre-war days. The restoration of the devastated districts of France has given ten-

porary employment to a large number of Italians in France, more especially on the farms, but with the difficulty now being experienced in France of continuing this work, and with its approaching completion, the demand for foreign labour is decreasing, and not only is any fresh influx of Italian labour into France unlikely, but an afflux is expected unless France succeeds in raising foreign credits to complete the work. In any case, however, the outlet for Italian labour in France is a very temporary and a very limited one. As events are now moving, Italy is faced with increasing poverty unless the present policy of the nations is changed, and the Italian people are able both to sell and to buy freely in the world's markets. With her population growing so rapidly, Italy not only needs greater world markets for her products, but she urgently requires the re-opening of the immigration gates into the United States and elsewhere in order that her industrious and thrifty people may have the opportunity of continuing to perform those valuable services for the world which so materially assisted to develop both the old and the new countries prior to the war.

The grave economic difficulty confronting the Italian people has already caused them to resort to heroic measures in order to meet the situation. The need to buy abroad and the obstacles which Italy met with in her effort to sell enough of her goods to pay for essential supplies of food and raw material caused heavy depreciation of her currency, this in turn caused a decline in real wages in Italy, and this again led to constant strikes for higher pay, and this caused production to decline, and costs to increase. The difficulty of making payment for foreign food and raw material thus remained, and the lira continued to fall. A great financial crisis became inevitable unless prevented by exceptional measures. The Italian people consequently submitted to a dictator, whose function was to increase efficiency and economy, to keep down Italy's home and foreign expenditures, and to reduce the Italian costs of production in the hope that foreign markets could be found for Italian products if they were sufficiently cheap and attractive. So far this heroic policy has succeeded, but further consequences are now being experienced. Foreign tariffs have been raised higher still, and in spite of her com-

pulsory low cost of production, Italy is now face to face with a situation in which she may be unable to sell her products in sufficient quantity or to emigrate her people—a situation of the utmost gravity for the peace of Europe. Clearly the future of Italy demands a great increase in world income and world buying power. With the whole world expanding in prosperity, Italy would have no difficulty in finding ever-widening markets for the attractive products she is now manufacturing, and the expansion of her manufacturing power would enable her not only to maintain her increasing population, but to give them a higher measure of well-being.

In brief, while Italy did not suffer seriously from the war, her whole future is imperilled by the existing world disorganisation. It is of the utmost importance to her that the artificial impediments to recovery should be removed, and that a great expansion in world income and in world buying power should be brought about without delay. Heroic measures such as Italy has adopted, are only tolerated as long as they are successful.

CHAPTER X

GERMANY

OF all the nations of Continental Europe the position of Germany is the most hazardous and the most crucial. For many years past her ability to support the additions to her population has depended upon her power to purchase foreign supplies of food-stuffs and of essential raw materials, and at the outbreak of war one-third—over twenty millions—of her total population was so dependent. In spite of her great losses in the war the population of Germany, after allowance is made for her reduced territory, has largely increased since 1913, and is still increasing at the rate of some 500,000 persons per annum, while her own resources of food and raw material have been substantially curtailed in consequence of her diminished area. To-day probably 40% of her people depend for their support upon their ability to purchase foreign supplies of food and material, and the proportion is increasing year by year.

Germany in pre-war days was able to provide for her growing population not only without difficulty, but with increasing ease by developing her manufacturing power, by expanding her foreign trade, by increasing her shipping, by extending her financial interests and activities in many parts of the world, and in performing other valuable services to foreign countries. Her exports had grown to over £500 millions per annum, while she was entitled to receive about £70 millions a year from interest upon the capital she had placed abroad, and probably to another £50 millions in respect of shipping and other services rendered to foreign countries, giving her a total foreign income of over £600 millions a year. This was the great sum she had available for the purchase of her foreign supplies of food and material needed for the support of her people. All but about £50 millions a year of this amount she spent in foreign countries in paying for imports, and the balance was employed in expanding the productive power of neighbouring Continental and other countries. The effect of the increasing prosperity of Germany was thus to increase the prosperity of the countries from which she

bought and to which she sold. By helping to expand their productive and earning power she enabled them to pay for the additional goods which she herself required to sell, and thus gave her people the power to buy what they needed for their maintenance. Germany's buying power was indeed a matter of great moment to all countries, for next to Great Britain she was the largest buyer of foreign products.

The war and the policies of the nations since the war have now placed in jeopardy this great buying power, and with it the welfare of a large proportion of the German people. Until measures are taken to expand and not to restrict the world's income, and the world's buying power, this danger will increase. The welfare of Germany is especially bound up with the well-being of the entire continent of Europe, including Great Britain and Russia

In pre-war days the chief markets for German products were the neighbouring States. Indeed no less than 75% of all the goods which Germany had for sale abroad were bought by other European nations, including Great Britain. The impoverishment of Europe by

the war has consequently reacted upon Germany with extraordinary force. Europe is unable to buy her goods in sufficient amount, and Germany in turn cannot pay for the great quantity of food and raw material her large population so sorely needs. The danger of this situation has for the moment been averted by the willingness of the United States and of Great Britain to advance the capital sums she required to provide for her urgent necessities, but these advances cannot continue indefinitely, and with the interest account increasing the position of Germany is becoming still more difficult.

In the current year the British mining trouble has enabled Germany to sell additional quantities of coal, steel, and other products at the same time that steps have been taken by the President of the Reichsbank to curtail German borrowings abroad. Nevertheless in recent months Germany has again needed to apply both to New York and to London for loans, and must continue to do so until the situation is adjusted. As matters now stand Germany needs to borrow abroad large sums yearly to provide her people with urgent necessities, and should the restrictive tariff

policy of the nations continue, the amount may become still greater. In 1925, with no British mining dispute to help her, Germany's exports were valued at only £442 millions while her imports reached £657 millions.

But the misfortune of Germany is not confined to her inability to sell her manufactures for the support of her people. Under the Dawes plan she has to sell abroad large quantities of her products annually in order to make payment of reparations. In the year to next August, the sum to be paid will be £73½ millions, in 1927-8 it is to increase to £86 millions, and in 1928-9 and thereafter it is to be £122½ millions a year. These reparations, it is true, are for the most part made in kind, but no one can doubt that they greatly militate against the sale of the products which Germany needs to sell in order to purchase what she requires to buy, and that the effect of them upon her own buying power and upon that of the nations from which she buys is most injurious. Moreover the fact of these reparation goods having to be sold at the same time that Germany is known to be extremely anxious to sell other goods, has a highly disturbing effect upon political mentality, and is

in no small measure responsible for the restrictive tariff policy of the nations—a policy that intensifies the difficulties. .

So long as Germany can raise credit in the United States and Great Britain, so long will the disastrous consequences of her relative lack of buying power be averted, but if a time should come when her credit is exhausted and she is forced to reduce her purchases to the limit of her selling power, less her reparation and interest payments, then the full consequences of the impoverishment of the German people will be experienced by other nations.

If it is necessary for trade to be restored and income increased in Great Britain, France and Italy, it is of vital moment in the interest both of the German people and of all nations, that no step shall be left untaken to prevent the collapse of German credit, and to restore German income and buying power.

Instead of receiving £70 millions a year as income on her foreign investments, as in pre-war days, Germany will shortly be asked to pay £122½ millions a year for reparations—a turnover of nearly £200 millions a year on foreign income account.

Instead of a prosperous and progressive Europe able and willing to buy her goods freely as in pre-war days, Germany is now surrounded by impoverished nations able to buy little and willing to buy less.

Instead of a prosperous Russia supplying Germany in particular with immense quantities of food and raw material and purchasing large quantities of German manufactured goods in exchange, Russia is now disorganised and unable either to export the food that Germany needs or to buy the manufactured goods which Germany has for sale.

Instead of being able to buy food and raw material from nations willing to take payment in her goods, Germany has now to buy largely from nations which do not need her products, and which demand payments in instruments of credit, thus involving her in obligations which she will be able to honour only if there is a complete reversal of the present policy of the nations, both in the matter of Tariffs and of Reparations

CHAPTER XI.

RUSSIA

NO country has suffered more grievously than Russia from the war and from post-war policy. The sufferings of France, of Germany, and even of Austria have been relatively light in comparison. Her losses in killed and wounded were far heavier than the German, while her mortality from epidemics, famine and revolution has been incredible. Moreover the disorganisation of Russia has been infinitely greater than that of other nations. Europe has been visited by a devastating tornado, Russia by a great earthquake. The productive power of Europe has been largely restored, that of Russia is still awaiting restoration. But whatever may be the present position of Russia, it cannot be doubted that her future is more assured than the rest of Europe's, and infinitely more assured than that of Germany, Austria, Italy or even of Great Britain. The welfare of these countries in particular, and of Europe in general, is

governed by their power to sell their manufactures to the rest of the world in exchange for the food and material they require to support their large and growing populations in small areas. The welfare of Russia is ~~within~~ her own control, for she is the largest country in the world with almost limitless resources of national wealth, and can maintain an indefinite expansion of population. Prior to the war her export of cereals was nearly as great as all the rest of the world put together. She has inexhaustible supplies of oil, timber, and of minerals—coal, iron, copper, lead, gold, platinum and silver, as well as vast areas suitable for the cultivation of flax, hemp and cotton, of which commodities she already produces large quantities. Her manufacturing industries are at present limited, and consequently she needs to buy foreign manufactures in exchange for her agricultural, forestal, mineral and other products, but should there be unwillingness on the part of foreign countries to make such exchange, her manufacturing output can be increased to whatever extent is necessary. Thus, however much anxiety may be felt about the capacity of the other great nations of Europe, in the

near or distant future to maintain their peoples there is no doubt about Russia being able to support a vast population out of her natural resources when they are systematically developed.

The present distress of Russia arises in part from the heavy decline in her manufacturing output and in her inability to buy sufficient foreign manufactured goods. In the absence of their power to exchange their foodstuffs for adequate supplies of manufactured articles, the farmers of Russia are producing no more than enough foodstuffs and raw textiles to pay for the limited supplies of clothing, boots, agricultural implements, machinery, and other things that are available for them to buy. Hence the production of foodstuffs and raw materials is barely enough to maintain the urban population, and the quantity available for export is extremely small. It is this lack of Russian supplies of food and material that is in no small degree responsible for the present difficulties of Europe. Were they available Europe would be able to make payment for them in manufactured goods. In the absence of Russian supplies, Europe is compelled to buy increased

quantities of food and material from countries which do not wish to buy her manufactures in exchange, and consequently has to borrow to pay for a considerable part of them.

• In pre-war days capital for Russian development came largely from other European nations, more especially from France and Germany, and the rapidity with which Russian production is now restored will depend upon the amount of capital she can obtain from foreign countries. With France and Germany now needing to borrow foreign capital, and in no position to supply capital to others, the restoration and development of Russia depends mainly upon the willingness of Great Britain and the United States to supply the sums required. From the fundamental standpoint of potential wealth, confidence in Russia already exists, but from that of psychology and policy it has yet to be created. On the one hand Russia needs to recognise the importance of creating confidence abroad both in her policy and in her integrity, and on the other Europe, and more particularly Great Britain, requires to realise that without the restoration of Russia Europe's difficulties cannot be overcome. In pre-war

days Russia's exports of prime essentials were of the value of about £160 millions at the prices then ruling. At present prices the value would have been 50% higher. How great would be the present advantage to the nations of Europe if they were now able to sell to Russia manufactured goods in exchange for the pre-war quantity of produce at current prices, and how great would be the benefit to the Russian people if they were able to purchase the foreign manufactured goods of which they are in urgent need! Russian exports are recovering steadily, but the process is extremely slow and the hopes of large exports of Russian cereals have not yet materialised.

Before any large amount of credit or capital can be furnished to Russia, not only must confidence be created in the intention of the Russian Government to honour its obligations, but the existing obligations must be most carefully adjusted to Russia's capacity to meet them. Moreover, they must be so adjusted as to enable fresh credit and capital to be supplied in complete safety.

Prior to the war, upwards of £1,000 millions of foreign capital had been supplied

to Russia for railway construction, for her municipalities, for the development of ~~of~~ and minerals, and for other purposes, and during the war Russia borrowed abroad about £800 millions of which nearly £600 millions were obtained from Great Britain. Against the pre-war borrowings there are still substantial and valuable assets. In pre-war days the Russian Government was in a high degree of solvency. Against its pre-war national debt of £1,000 millions it owned a great railway system, immense areas of land and forests, valuable mines and other assets which yielded a net income large enough to meet the debt charge. A large part of these assets, and especially the railways, were created mainly by means of the loans raised abroad. The present Government is stated to be willing to honour Russia's pre-war liabilities to the best of its ability, provided that it can obtain the capital it needs for the restoration of the country's productive power.

It is beyond question that very great mutual benefit would accrue to Russia and to Europe from the restoration of Russia's income and purchasing power. Were credit and capital to be supplied to Russia without delay

to enable her crops to be moved and her productive power to be re-established, an immediate outlet would be created for a largely increased quantity of European manufactures. Probably the most urgent of all the problems with which the nations are faced is that of the restoration of Russian buying power, production and income.

CHAPTER XII

CENTRAL EUROPE

FUNDAMENTALLY the countries of Central Europe have not been so much damaged by the war as Russia, Germany, France or Great Britain, and an appreciable increase of their income is a matter not of physical difficulty but of mental change. They cannot become as prosperous as in pre-war days until there is recovery in the buying power of the rest of Europe, and particularly of Germany, but they can become much better off than at present as soon as they are prepared to take the necessary measures between themselves. Hungary and Jugo-slavia need the manufactured products of Austria and of Czecho-slovakia, and the latter require the food products of the former. Austria is in want of the specialities of Czecho-slovakia, and the latter of Austrian products. Czecho-slovakia, Hungary and Jugo-slavia all require the banking and mercantile machinery of Austria to facilitate business between them-

selves as well as with the rest of the world. Moreover, in no small degree the prosperity of all four States depends upon the recovery of the income and buying power of Vienna. Notwithstanding the undoubted community of their interests, the four States pursue a highly antagonistic policy towards each other. Not only are they seeking to buy as little as possible from one another, but each is apparently doing all that it can to impede the recovery of its neighbours.

The powerful "Plea for the removal of Restrictions upon European Trade" recently published by the leading bankers and industrialists of Europe, specially applies to the Succession States of Austria, and the picture of the deplorable situation which the Plea depicts cannot be challenged.

Already there are signs of wiser counsels in the affairs of Central Europe, and as soon as these prevail a great improvement should be experienced in their condition. Although they cannot attain to a full measure of prosperity until the great nations of Europe recover and are able to expand their buying power, a Zollverein for Central Europe, including, if possible, the whole of the Balkan

States, would greatly assist their recovery. Clearly in their own interest, the Central European and Balkan States need to do all in their power to diminish the disorganisation of European trade which now exists. The growth of their populations calls for expanding production, trade and income, while their present policy will inevitably result in reduced production, declining trade, and an income that will neither permit them to maintain their peoples nor meet their liabilities.

The difficulties of Austria have excited universal sympathy. Under the Treaty of St. Germain the country was reduced to only 32,000 square miles, largely mountainous, and its population to less than 7,000,000. To this small total Vienna contributes nearly 2,000,000. So great a proportion of the total population in a single city cannot be maintained by the internal trade of Austria alone. The greater part of the necessary supplies of food and raw materials for such a population must be imported and paid for by exports and services. But Vienna's contribution to the income of the former Austrian Empire consisted largely of Governmental, banking, mercantile and other services, and these the

Succession States have endeavoured to discard. Consequently Vienna has had great difficulty in preserving a large portion of her people from starvation. She was in the first place greatly assisted in this task, by philanthropic action to which America contributed largely, secondly by loans from the American, British and other Governments, and thirdly in 1923 through the instrumentality of the League of Nations by a loan of £27,000,000, guaranteed chiefly by Great Britain, France, Italy and Czecho-slovakia for the purpose of balancing the budget, stopping inflation and stabilising the currency, as well as for providing capital for productive purposes to enable the Austrian people to become self-supporting.

Inflation has now disappeared, the currency is stabilised, and the Budget is not only balanced, but is supplying substantial sums for capital purposes. This has been accomplished during a period in which the proceeds of the large loan was used to supplement the income of Austria, and thus to enable her to purchase abroad the supplies of food and material she would not have been able to pay for out of her attenuated foreign income. At

the end of June last the unused balance of the guaranteed loan had been reduced to £6,300,000. Moreover large sums of private credit had been furnished to Austrian bankers and others, credit which materially assisted to pay for the imported necessities that Vienna required. Austria's foreign income derived from exports, tourist expenditures, banking and mercantile commissions, is still insufficient to pay for the food and material she needs to buy abroad.

In the four years from 1922 to 1925, Austria's imports exceeded her exports by no less than £128,000,000. Notwithstanding a substantial improvement in her exports, Austria in 1925 exported only £56 millions worth of products against imports of £83 millions. There was thus a deficit last year of £27 millions. In the current year imports have increased and exports decreased, and the adverse balance threatens to be bigger than last year. A part of these balances is met by foreign tourist outlays in Austria, and by interest payments on Austrian capital in the surrounding countries. But when all allowances are made it is evident that Austria is still paying for a large part of her excess imports by credit operations.

If Austria is not again to sink into the distress from which she has been rescued by the League of Nations, and is to be in a position by means of her exports and services to buy essential supplies of food and material and to meet her liabilities, both public and private, a complete change of policy by herself and her neighbours is imperative. Were Vienna to be subjected to another financial collapse, its effect upon confidence would be felt far beyond the Austrian frontier, and would place in jeopardy both Governments and corporations which still depend upon foreign credit, and will continue to do so until there is a general expansion of international trade and of national income to the extent necessary to permit Europe to avoid fresh borrowing, and to begin to redeem its existing heavy liabilities. At the present moment nearly every country in Europe is borrowing or is anxious to borrow either in London or in New York. It is, therefore, of the greatest moment that the permanent income of Austria should be increased to the extent needed to pay for essential supplies of necessities and to avoid fresh borrowing.

Of course, as a great International Money Market, Vienna is justified in continuing to borrow in order to lend again, provided the institutions to which her loans are made are thoroughly solvent.

In pre-war days the credit of the great Austrian banks caused large sums to be sent to them from London, Paris, and Berlin for employment in Austria-Hungary and throughout the Balkans, and the high credit they continue to enjoy still permits them to supply a considerable amount of credit not only to Austrian enterprises, but to Czecho-slovakian and to Jugo-slavian. A policy that promotes the prosperity of all these countries will greatly assist the flow of international money to the great Austrian banks and permit them to grant the additional credit of which every one of the Balkan States is in such urgent need.

CHAPTER XIII

BELGIUM

THE position of other nations involved in the late war is also one of great difficulty. All are burdened with debt, and at the same time cannot dispose of their products in sufficient quantity to give them the income they need. The smaller war-stricken nations in particular have been compelled to depreciate their currencies in order to balance their budgets and to enforce economy upon their peoples. In pre-war days Belgium was able to support her people in comparative affluence, although they numbered over $7\frac{1}{2}$ millions in a country of less than 11,400 square miles, and were 670 to the square mile. This she did by supplementing her own limited supplies of foodstuffs and raw materials by large imports from abroad, which she paid for by exports of her own products. Her chief markets were first of all, Germany, which bought about 25% of her total exports, second, France, which bought 20%, third, Great Britain, which bought 15%, and fourth, Holland, which

bought nearly 10%. These four countries thus bought over two-thirds of what Belgium needed to sell, and thus gave her power to maintain a very large proportion of her people. But the real buying power of these countries and especially of her chief customer, Germany, has been greatly reduced, with the consequence that Belgium has not been able to sell anything like the quantity of goods she sold before the war, and has had the utmost difficulty in paying for the food and raw material needed to sustain her dense population. In order to meet the situation she has been compelled to borrow abroad, and to permit her franc to depreciate in order to enforce economy upon her people, and to produce cheaply in the hope of selling at prices as low as or lower than her neighbours.

While the depreciation of the French franc has been mainly due to the difficulty of balancing the French budget owing to the vastness of the debt charge, the fall in the Belgian franc has resulted from her foreign trade position and from difficulties experienced in paying for absolutely essential supplies of foreign food and material. So long as Europe in general and Germany in par-

ticular remain impoverished, so long will it be difficult for Belgium to sell enough of her goods to pay for the large quantities of foreign products she urgently needs to buy. That the Belgian franc has been stabilised, at the low figure of 175 francs to the £ in place of the former gold parity of 25 225 francs, is due in part to the anxiety felt concerning Belgium's ability to pay for what she needs to buy abroad unless the real wages of her workmen are kept down by high currency prices. If the present policy of trade restriction prevalent throughout Europe, indeed throughout the world is continued and intensified, Belgium will not be able to sustain her present dense population, and the allied efforts to support the Belgian people throughout the war will have proved fruitless.

CHAPTER XIV

POLAND

POTENTIALLY Poland is one of the richest States in Europe. Her farm- and timber-lands are extensive, and she has large deposits of coal, petroleum, natural gas, iron ore, zinc, potash and salt. When her territory of 141,000 square miles is more fully developed her population of some 28 millions should enjoy a high degree of prosperity. Already she has a large output of agricultural produce, more especially of rye, potatoes, and beet sugar, as well as of timber and minerals, particularly coal. Her industrial equipment comprises many cotton and woollen factories, both spinning and weaving, steel plants, chemical works, sugar refineries and paper mills. In the past year Poland has derived advantage from the trouble in the British coal trade, which enabled her to export coal to the whole of Europe, including Great Britain, and gave her command of cash resources of which she was in much need. The Polish coal and steel trades should continue to do fairly well

for another six months, as the stocks of coal are exhausted and orders for steel are much in arrear.

Nevertheless Poland's outlook is most uncertain. Prior to the British mining trouble she suffered from bad trade and had over 350,000 unemployed. Her difficulty in selling goods abroad brought a large excess of imports, while her currency which was stabilised in 1924 on the basis of 25 225 zloty to the £, had again broken loose. The position in Poland in the early months of this year was indeed in some measure similar to the situation in Italy prior to the Fascist Revolution. As events were then moving it was difficult to foresee the future, and heroic measures were regarded as necessary. Hence Marshal Pilsudski became Dictator of Poland, as Signor Mussolini had previously become Dictator of Italy. The British mining trouble has given Poland a respite of possibly twelve months in which to solve the problems that confront her of obtaining expanding markets that will permit her unemployed of last spring to find permanent work, and will provide occupation and sustenance for her natural increase of population.

In considering this problem account must first be taken of Poland's geographical position between the two great countries of Germany and Russia, secondly of the fact that the districts now comprising the Republic of Poland formerly found ready markets for their surplus products in the three great empires of which they were a part, and thirdly, that compared with these markets the buying power of a nation of only 28 millions of persons is limited. Moreover it has to be noted that the buying power of Germany, Russia, and Austria has severely declined, and that the policies now pursued both by and towards these nations is preventing its recovery. It is evident that the future well-being of Poland depends upon the restoration and increase of the buying power of Germany, Russia and of the countries that formerly comprised the Austrian Empire. In so far as Poland herself can contribute to the restoration of these countries and is able to exchange her products for theirs, she will promote her own permanent prosperity. At the present time 40% of Poland's permanent exports are to Germany, nearly 10% to Austria, and 7% to Czecho-slovakia. More-

over in no small degree does the future of Poland depend upon her ability to cultivate the Russian market. If Russia develops her great natural wealth in the manner and at the rate that are possible, Poland should possess in the Russian market at her door an almost unlimited outlet for her manufactures in exchange for Russian materials, and if concurrently Germany is able to buy an ever-increasing quantity of coal, iron and other Polish products, Poland will become one of the richest nations in Europe.

As matters now stand, with her debt to the United States, Great Britain, France, Italy, Norway, Sweden and Holland, and with her power to sell her products strictly limited, it is of great moment to Poland that steps be taken without delay to bring about a rapid increase in the income and buying power of the rest of Europe, more particularly of Germany and of Russia, in order that she may obtain the income and buying power needed to maintain her large and increasing population

CHAPTER XV

ROUMANIA .

THE Roumanian problem of restoration is one of construction. It resembles that of Russia rather than those of Western Europe. It is one of the first needing to be dealt with. Indeed, having regard to the possibilities, it is probably the first that can be solved. In pre-war days Roumania supplied the industrial nations of Europe with a substantial quantity of cereal foodstuffs and received in exchange all kinds of manufactured goods, more particularly textiles, steel and machinery. As a result of the war Roumania's agricultural production has seriously fallen off, and her power to purchase manufactured goods has correspondingly declined. Indeed her buying power has more than correspondingly diminished, as she is heavily in debt to foreign countries, and has to meet the service of her obligations. She has also incurred considerable liabilities on current account, which greatly hamper her activities, and beyond this she has greatly depreciated her currency by issuing a vast amount of paper money, thus

rendering foreign goods excessively expensive to the classes which normally consume them. In consequence of reduced productivity, increased indebtedness, and an inflated note circulation, her currency is not only heavily depreciated, but is liable to wide oscillations in value. The par of the lei is the same as the gold franc, but in the past three years the rate of exchange has at times risen a long way over 1,000 lei to the £ in place of the normal 25.22½ lei. In the current season the harvest has been more favourable and the exchange has improved. Still even now it is still over 900 lei at a time of year when grain exports are heaviest.

That the situation is not worse is due in large part to the energy with which the Roumanian oil wells have been restored by the foreign companies which own them. The production of these wells is now about 50% greater than prior to the war, and is increasing rapidly.

If the work of restoring Roumania's agricultural output were as actively prosecuted as her oil production, the country would soon regain its prosperity and be able not only to sell, but to buy more freely.

In some measure Roumania's present troubles may be ascribed to her lack of transport. Both during and since the war the railways have not received the repairs essential to efficiency and do not possess sufficient rolling stock to deal with traffic expeditiously.

The railway finances have now been entirely separated from the Government's budget and new capital needs to be raised both for repairs and for extensions, as well as for new rolling stock. Inasmuch as post-war Roumania has an area of 122,000 square miles and only some 7,000 miles of railway, new extensions are certainly called for.

It is true that the restoration of Roumania's production of foodstuffs, of oil and of timber is a relatively small matter in comparison with the need of Europe to find additional markets for manufactured goods, still it would be a beginning, especially if the capital were found for a considerable extension of railway mileage.

Were Roumania's finances to be re-adjusted so that she was not over-burdened with debt, either permanent or floating, and were her currency to be stabilised and placed on a gold basis, additional progress would be made

in the work of bringing the nations back to sound principles and to solvency, thus promoting that increase of confidence essential to active trade

The solution of the Roumanian problem is largely in the hands of the countries which can supply her with the additional capital and the permanent credit she needs to recover and to expand her productive and buying power. But no assistance from outside can be effective without the most active co-operation of the Roumanian Government and of the Roumanian people. New capital cannot be obtained unless the fullest possible security is offered, and, as Roumania cannot supply herself with capital, it is specially imperative to create abroad a full measure of confidence both in her productive capacity and in her integrity.

Great Britain with her dependence upon foreign supplies of foodstuffs and upon foreign markets for her manufactures, has a special interest in Roumania and, provided the Roumanian Government and people pursue a policy that would give British investors and bankers complete confidence in the future of Roumania, could supply the capital and credit

required to repair and extend her railway system and to develop her rich agricultural resources. Already a large amount of British capital is employed in the development of the Roumanian oil fields to the very great advantage of Roumania, and no serious difficulty should be experienced in adjusting any matters that would be likely to hinder the inflow of new capital for railway construction and for other purposes.

In considering the Roumanian problem due allowance should be made for the general misunderstanding of the consequences which wars involve under present day world conditions, and of the exceptional steps needed to adjust the disorganisation they create. When the war came to an end Roumania needed assistance to enable her to repair her devastations. The temporary credit with which she was supplied so freely could not be liquidated until her productive power was fully restored, and she was able to sell abroad a greater quantity of produce than she needed to buy. In pressing their products upon Roumania, foreign traders ought to have realised that she could not pay for them in gold currencies until her productive power was

restored What Roumania needed was capital not credit. Of course if Roumania had received large sums for reparation, her difficulties would have been solved, but these large payments have not materialised Were the whole question of Roumania's rehabilitation to be fully, frankly and sympathetically discussed, and the facts of the situation clearly realised, no great difficulty should be found in finding and applying the solution which her special problem urgently demands.

CHAPTER XVI

RESTRICTIONS UPON TRADE

ONE of the most hopeful signs at the present time is the growing willingness to recognise the actualities of the situation and to consider the course which they demand. It is true the nations are still pursuing policies which increase the economic and financial danger confronting them individually and collectively. Nevertheless the Dawes plan, the Locarno Treaty, the entry of Germany into the League of Nations, as well as the assistance rendered by the League during the last few years to Austria, Hungary, Greece and Bulgaria, are all indications of a more reasonable attitude.

Moreover, this growing spirit of reasonableness in the political sphere has long since extended to the business world. The International Chamber of Commerce, representing the business men of all countries, has for some years past strenuously striven to bring home to the nations the danger of their present economic and financial policies, both national

and international. The most striking indication of the change of outlook that is slowly but surely making progress is the "Plea for the Removal of Restrictions upon European Trade" recently published over the signatures* of the great bankers, manufacturers and business men of Europe, including Great Britain, as well as of the chief bankers of America. This Plea contains principles which the Statesmen are still reluctant to admit, but which must be observed not only in the matter of restrictions upon European trade, but in all the other great problems by which the nations are confronted

This supremely important appeal and warning needs to be read and re-read at the present time. It is as follows —

"We desire, as business men, to draw attention to certain grave and disquieting conditions which, in our judgment, are retarding the return to prosperity

It is difficult to view without dismay the extent to which tariff barriers, special licences and prohibitions since the war have been allowed

*The names and descriptions of the signatories, together with the Italian and French reservations will be found at the end of this work

to interfere with international trade and to prevent it from flowing in its natural channels. At no period in recent history has freedom from such restrictions been more needed to enable traders to adapt themselves to new and difficult conditions. And at no period have impediments to trading been more perilously multiplied without a true appreciation of the economic consequences involved

The break-up of great political units in Europe dealt a heavy blow to international trade. Across large areas, in which the inhabitants had been allowed to exchange their products freely, a number of new frontiers were erected and jealously guarded by customs barriers. Old markets disappeared. Racial animosities were permitted to divide communities whose interests were inseparably connected. The situation is not unlike that which would be created if a confederation of States were to dissolve the ties which bind them, and to proceed to penalise and hamper, instead of encouraging, each other's trade. Few will doubt that under such conditions the prosperity of such a country would rapidly decline.

To mark and defend these new frontiers in Europe, licences, tariffs and prohibitions were imposed, with results which experience shows

already to have been unfortunate for all concerned. One state lost its supplies of cheap food, another its supplies of cheap manufactures. Industries suffered for want of coal, factories for want of raw materials. Behind the customs barriers new local industries were started, with no real economic foundation, which could only be kept alive in the face of competition by raising the barriers higher still. Railway rates, dictated by political considerations, have made transit and freights difficult and costly. Prices have risen, artificial dearness has been created. Production as a whole has been diminished. Credit has contracted and currencies have depreciated. Too many states, in pursuit of false ideals of national interest, have imperilled their own welfare and lost sight of the common interests of the world, by basing their commercial relations on the economic folly which treats all trading as a form of war.

There can be no recovery in Europe till politicians in all territories, old and new, realise that trade is not war but a process of exchange, that in time of peace our neighbours are our customers, and that their prosperity is a condition of our own well-being. If we check their dealings their power to pay their debts diminishes,

and their power to purchase our goods is reduced. Restricted imports involve restricted exports, and no nation can afford to lose its export trade. Dependent as we all are upon imports and exports, and upon the processes of international exchange, we cannot view without grave concern a policy which means the impoverishment of Europe.

Happily there are signs that opinion in all countries is awaking at last to the dangers ahead. The League of Nations and the International Chamber of Commerce have been labouring to reduce to a minimum all formalities, prohibitions and restrictions, to remove inequalities of treatment in other matters than tariffs, to facilitate the transport of passengers and goods. In some Countries powerful voices are pleading for the suspension of tariffs altogether. Others have suggested the conclusion for long periods of commercial agreements embodying in every case the most-favoured-nation clause. Some States have recognised in recent treaties the necessity of freeing trade from the restrictions which depress it. And experience is slowly teaching others that the breaking-down of the economic barriers between them may prove the surest remedy for the stagnation which exists. On the valuable

political results which might flow from such a policy, from the substitution of good-will for ill-will, of co-operation for exclusiveness, we will not dwell. But we wish to place on record our conviction that the establishment of economic freedom is the best hope of restoring the commerce and the credit of the world."

When our chief bankers, including most of the Governors of the great central banks of Europe, and other leading men of business arrive at such conclusions, it is obvious that public opinion is being aroused to the vital issues, and will sooner or later insist upon the adoption of whatever measures are needed for the complete readjustment of the situation.

"In time of peace our neighbours are our customers and their prosperity is a condition of our own well-being"

The mere statement of this truth by such authorities must powerfully assist to create that atmosphere of understanding without which no adjustment will be possible, while its universal acceptance and application in a practical form would enable the nations to overcome the political and economic dangers which now menace their welfare.

CHAPTER XVII

INTER-ALLIED DEBTS

TRADERestriction is, however, only one of several problems which must be solved if the nations are to recover their solvency and to make new progress. The question of Inter-Allied Debts is one of these. The allied nations of Europe are heavily in debt to the British Government, and together with Great Britain are heavily in debt to the American Government. Is it to the interest of Great Britain and America to claim the payment of these debts? Clearly the financial position of Great Britain demands that she shall obtain the largest possible income to enable her great population to be maintained and her Government to raise the revenue needed to meet a national expenditure swollen to the vast sum of over £800 millions by interest upon her war debt of some £7,000 millions

Having regard to Great Britain's need and also to the amounts she has lent to France, Italy, Russia and other countries, the sums she is asking to be repaid are extremely

reasonable. But will the collection of these war debts be as helpful to her as their forgiveness would be? If they can be collected without reducing her power to sell the goods she needs to sell, and without affecting the income of her own industries, then clearly they should be collected. But if their collection will tend so to impoverish her customers that they cannot buy as many British goods as they would otherwise do, and cannot expand their purchases as the years pass, then the collection of these debts will be harmful and not beneficial. Of what good would it be to the British people to receive £12 millions a year from France if this payment were to reduce the income of British collieries and of British manufacturers trading with France to a corresponding extent. The money received would simply have to be paid in unemployment insurance, while the capital sums invested in British industry would show depreciation and loss. The net effect of the collection of such sums would in this case be highly injurious.

Or again should the need to make these payments cause French manufacturers to endeavour to sell their silk, woollen and other

products more actively in the British market, and bring about a corresponding reduction in the demand for similar British goods, the loss would be greater than the benefit, as beyond the loss of income to British manufacturers and employees, there would be the loss of capital resulting from a smaller output. The British Government has already placed a heavy duty upon the import of silk goods from France, although such imports need to be made if France is to buy the coal she requires from Cardiff. But how much more silk and woollen and other goods will France need to sell in the British market when she has to provide for the service of her debt to the British Treasury?

If there were an unlimited market in Great Britain for French goods, then no difficulties would arise, but the very fact of the British Government having already imposed a duty upon French, Italian and other silks, and of Bradford manufacturers asking for protection against French woollens indicates the present limited extent of the market for these products. Is it reasonable to demand payment and then to refuse to accept it in the goods which the debtor is capable of producing?

These inter-allied debts, it should be understood, are different in character to the ordinary investments which Great Britain makes abroad. British foreign investments have been made almost entirely in countries the products of which are needed by the British people, not in manufacturing countries whose products are not essential to them. In pre-war days Great Britain had very few investments in the manufacturing countries of Europe. On the other hand she had very large investments in countries from which she needed to draw ever-expanding supplies of certain products. These supplies came to her as interest on her capital, in payment of her services, and in exchange for her goods. Great Britain needs supplies of foreign manufactures to supplement and not to displace her own productions

To insist upon manufacturing countries paying large sums for interest and principal and to place tariff and other obstacles in the way of the payments is unjustifiable, and is more especially open to condemnation when the debtor nations need to sell all they can find markets for in order to purchase the food and material required for the sustenance of

their peoples. If the French and Italian peoples are able to purchase as much as they sell, then no one is injured. It is possible for British coal-miners to produce enough coal to buy both from British and from Continental manufacturers. If the latter cannot buy, however, then the demand for coal is reduced.

Were the nations which owe these large sums to come to a common agreement with Great Britain to remove all tariff and other trade restrictions so that they and Great Britain could sell their goods freely without hindrance or handicap, there would undoubtedly be a greatly increased demand for their goods in the British market, and for British goods in their markets. The resulting great expansion of income would be of mutual advantage, and Great Britain out of her larger income would be able to meet with increasing ease the heavy cost of her Government, and of the interest upon her war debt. A great expansion in world prosperity, income and buying power is of far greater moment to Great Britain than the collection of Government debts from countries impoverished by war

And what applies to Great Britain is equally applicable to America. The United States require to sell great quantities of their agricultural and other products in the markets of Europe, and the need of the European nations* to buy American products is still greater, for without these American supplies they could not support and employ their peoples. They are not only willing, but anxious to buy all that America has for sale. Their purchases are only restricted by the limits of their power to make payment. In these circumstances the demand by America for the repayment of the war debts means either an increased export of European goods and services to America or a diminution in Europe's purchases from America or the supply of still greater amounts of credit and of capital by America to Europe. The latter alternative does not solve the problem, it merely postpones it, and renders its ultimate solution more difficult and at the same time more dangerous.

*In the twelve months to June 30th, 1926, Europe purchased American products to the value of some £470 millions nearly one-half of America's total exports of about £960 millions. On the other hand America's purchases of European goods were to the value of only £250 millions out of America's total imports of £900 millions.

In pre-war days Europe had to receive interest from America amounting to about £60 millions a year, to-day Europe, including Great Britain, has not only lost this income but has to pay to America a much greater sum than this amount annually upon money borrowed both during and since the war. The payment on the war debts of upwards of £2,000 millions, when a settlement is reached with all the allied countries, will alone be about £50 millions a year, and there will be the interest on the large private loans besides.

Europe now needs to buy American products in greater quantity and of a much greater value than in pre-war days, and so far as she can pay for them by sales of her own goods either to America or to the countries from which America desires to buy, these purchases create no difficulty. Indeed Europe needs to buy from America more than she is allowed to pay for in her own goods directly or indirectly, under existing tariff conditions, and in so far as she is able to raise capital in America such purchases can be made. But no small part of the new supplies of capital from America are already needed by Europe not to pay for products, but to meet accruing

payments for interest and principal. And a greater proportion of the new borrowings is required for this purpose each year

Hence present conditions cannot continue indefinitely, and sooner or later Europe's purchases from America must be reduced to the quantities for which payments can be made without borrowing.

In view of this position will it be better for America to require payment of her debt and to reduce the sales of her products to the capacity of Europe to buy after meeting the service of the incurred obligations, or will it be more advantageous for America to forgive the war debts in order to maintain the sales of her products in the interest of her own cotton planters, farmers and manufacturers rather than that they should suffer both loss of income and loss of capital through the reduction of their selling power? Will it not be much more profitable for America to maintain permanently her power to sell her products rather than to insist upon the payment of debt which will seriously reduce the buying power of her customers? This question is not one of merely theoretical interest, it is one of immediate practical significance.

This matter is one of great importance both to America and to Europe. So long as Europe and the world in general are able to borrow freely from America, so long will Europe and Great Britain be able to obtain the exchange wherewith to meet the service of their debts to America. But if the world and Europe should be unable to borrow from America it would become impossible for Europe and Great Britain to obtain the necessary exchange, and they would be compelled to curtail their present large purchases of American produce to the extent necessary to permit them to meet their obligations to the American Government, bankers and investors, a process which would be most disturbing both to themselves and to American planters, farmers, miners and others.

Surely the situation calls for entirely different treatment to this. Were Great Britain to forgive the whole of her Continental debtors the great war debts they owe to her of some £2,000 millions, it would immensely ease the whole situation and help to maintain European buying power. And were her action attended by similar action on the part of the United States, the situation would be further

improved. Not only would there be a real beginning in the work of restoring Europe to a state of financial equilibrium, but the United States and Great Britain would by their action encourage other nations to revise their policies and to bring their contributions to the general work of getting the nations back to a permanent condition of financial solvency and of economic soundness. At any rate the danger of a collapse in European buying power would be greatly reduced, and the adjustment of the other problems would be rendered infinitely less difficult. The vital problem to be solved is not the collection of debts but the permanent maintenance of both selling and buying power. Prosperity comes from a steady expansion of income, not from the windfalls of war.

CHAPTER XVIII

REPARATIONS

THE problem of Reparations was not solved by the Dawes Plan, ingenious and clever as it was. The problem of the Ruhr was solved, but not Reparations, which remains one of the most disturbing factors in a very difficult situation. The trouble arises not in collecting the required revenue in a country whose defensive expenditure has been reduced to a minimum, and whose debt has been wiped out by inflating the currency. With an exceedingly low level of Governmental expenditure for purposes which are causing great Governmental disbursements in other countries and more especially in Great Britain, the German Government has so far made its reparation payments under the Plan regularly and with comparative ease. Indeed it has forestalled a part of the payments not yet due. Moreover, the Transfer Committee set up under the Plan to receive the payment in German marks has had no difficulty in remitting them to the countries entitled to them.

But this has been possible because Germany has hitherto been able to borrow freely both in London and New York greater sums than she has paid away for Reparation, and because in the past few months she has derived very substantial benefit from the British mining trouble which has permitted her to sell her coal, steel and other products in greater quantity at highly profitable prices.

The trouble about Reparations is the injury they cause not only to the German people, but to the whole of Europe, including France and Great Britain. In the first place there is not an unlimited demand for German products, and the remittance of the Reparations, both in bills of exchange and in kind, substantially reduces German buying power. This is a matter of moment to all the countries and industries which under normal conditions find a large and ready market for their products in Germany—France, Belgium, Great Britain, Poland, Czecho-slovakia, Austria, Holland, Sweden, Denmark, Switzerland, and other States. Moreover, were it not for her borrowings in New York, these Reparation payments would seriously affect Germany's purchases from the United States. Indeed

after she has borrowed from America as much as she is able to borrow, they will affect her purchases from America most seriously

Secondly the receipt of Reparation goods is by no means an unmixed blessing to the countries to which they are sent. Thus the iron and steel industry of Alsace-Lorraine needs to sell a large part of its product to Germany at the same time that it requires to buy from Germany coal for smelting and other purposes. This coal is now received as Reparations. But Germany previously paid for the iron and steel she bought by means of the coal and other products she sold in return. Now that Germany has to send the coal as Reparations, her means of paying for the Alsace iron and steel are impaired. How can Germany buy what she requires from France if she receives an insufficient sum for the goods she exports to France or for the goods she exports to the rest of the world? Were there a practically unlimited market for German goods in France and elsewhere then the difficulties would not arise. In the nature of things this is impossible, and if Germany does not receive payment for her products she must reduce her purchases of French and other

goods, and such reduction will largely, if not entirely, neutralise the benefit of the Reparation payments.

If the Reparation payments stimulated consumption to the extent needed to permit Germany to export as many goods in the ordinary way of business as she would do were there no Reparation payments, then there would be no drawback to the payments. But Reparation payments, whether in cash or in kind, do not have this effect. They seriously reduce the buying power of Germany and therefore the selling power of the industries not only of France, but of every country whose goods usually find a market in Germany. The Reparation payments now being made by Germany are indeed in no small measure responsible for the trade depression in so many continental countries and in Great Britain. Germany's buying power is reduced by her inability to sell anything like the quantity of goods she needs to do, or that she sold in pre-war days, and by her Reparation payments which satisfy a part of the foreign demand for her goods without giving her any corresponding purchasing power. Moreover, the known need of Germany to sell

as many (or more) goods as in pre-war days to pay for what she needs to buy plus Reparations is one of the main causes of the high tariff policy of the nations, including Great Britain and the United States, a policy which further reduces the capacity of Germany to sell her products, and therefore diminishes her ability to buy the goods of other countries

The full extent of the contraction of Germany's buying power under these conditions is not yet apparent. Not only has Germany borrowed largely from the United States and Great Britain on investment account, but her present working capital has been supplied in no small measure by British and American bankers. The total amount of credit thus supplied to Germany has been large. To measure the true extent of Germany's buying power under existing conditions, the value of the goods bought by the aid of these credit operations must be eliminated. If this be done it becomes evident that her ability to purchase in quantity is much smaller than in pre-war days and quite inadequate to her needs.

As regards the future, three factors must be noted—one, that the protective policy of

the nations is being prosecuted with undiminished, indeed with increasing, determination ; two, that the more Germany borrows abroad in order to buy, the greater is the amount of interest to be paid in German goods, and three, that the sum to be paid from 1928 onwards for Reparations is no less than £122½ millions a year. Under these conditions it is obvious that the quantity of goods which Germany will be able to sell abroad for what she needs to buy abroad will be exceedingly small, that in consequence the selling and the purchasing power of other countries will show serious contraction, and that the competition of every country in its endeavour to sell will be intense.

The financial position of Europe when the full annual amounts of Reparation come to be made will thus become critical in the extreme. The allied nations will receive great quantities of coal and other German Reparation goods of which they will be able to dispose only by selling at low prices, while Germany will be compelled to make every effort to sell on her own account in order to buy even a minimum quantity of food and material for her people, and to pay interest on borrowed capital.

Hence the economic war now being waged by France, Germany, Great Britain, Belgium, Italy, Poland, Czecho-slovakia and other countries will become still more ruinous.

The financial position of a great number of European manufacturing firms and corporations is already causing much anxiety. What will be their state with a further increase of Reparation deliveries and a fresh decline in the buying power of Germany and of other nations? What will be the good of cheap coal if the demand for manufactured goods is further restricted? It will not be a question of price, it will be lack of ability to buy at any price.

The existing payments of German Reparations, and the existing contraction in German buying power are already causing much mischief even though that contraction is minimised by German borrowing. No one can doubt then that when Germany has to stop borrowing and has to pay over twice as much in reparations as in the first two years of her payments, the contraction of her buying power will be much more serious, and that consequently she will seek to sell as never before at any price in order to avert the

starvation of her people. Other nations will consequently be in greater distress than they are now because of the increased competition of German goods, both Reparation and Non-Reparation, and of the reduced buying power of Germany.

Are the allied nations well advised, under these conditions, in insisting upon the payment of these great annual sums for Reparations for an indefinite number of years? Will they not be much better off without them? Where will the allied nations sell their products in the quantity they do now if they do not buy the products of other countries to anything like the present extent, and will they not lose much more than they gain by the consequent depreciation in the value of their mines and factories? At any rate will it not be advisable for them to agree to a reduction in German Reparation payments and deliveries to a point that will not affect the selling power of their own mines and industries?

It cannot be too clearly realised that the Reparation payments are not similar in any way to the payments in connection with capital investments for normal purposes. They do resemble the payment of interest and

principal of loans raised for war, and therefore the problem involved in their payment is much the same as that created by the service of the inter-allied debts. But they do not resemble payments in connection with capital invested in other countries for productive purposes, either when capital is remitted to the borrowing country or the interest is returned to the lending country.

When capital is required for normal productive purposes by one country from another it is to enable things to be bought, which are beyond the power of the borrowing country to buy by any other means. Thus at the present moment Brazil needs the whole of her foreign income from her exports of coffee and other produce to pay for what she needs to buy, as well as to provide interest upon foreign capital already obtained. To develop her immense natural wealth she needs railways and requires foreign capital to build them. Were it possible to raise this capital in London, its remittance would not in any way reduce Brazil's normal power to buy either foreign or national goods. On the contrary the additional buying power, which the new capital would afford to her, would set up

currents of trade which would enable her to buy and sell more in the ordinary way and at the same time to buy the additional goods needed for the construction of the railway. No one would be injured by such a process, and everyone benefited. Additional buying power would have been created and satisfied by a permanent credit operation. When the interest upon the new capital came to be remitted to the lenders it would be sent out in the form of Brazilian products. The buying power of the countries receiving the interest would be increased, and the growth of demand which this increased buying power would create would enable the additional products to be sold without difficulty, and the interest paid.

Before a new railway or a new dock, or a new work of production is constructed, the question of the need for it is considered and estimates are made both as to the kind of production its construction will foster, and as to the probable demand for such a commodity. Thus when British investors supplied so much capital for the building of railways in the United States, they were induced to do so by the knowledge that a greater production

of wheat, cotton and other commodities would be needed by the increasing population of the world and more especially of America, of Great Britain and of Europe. Again when they supplied great sums of capital for railways to open up the wheat-lands of Canada they knew that Canadian wheat was of high character and would be wanted by the increasing population of Canada and by Great Britain and Europe. The provision of the capital did not reduce the demand for Canadian products, it increased it at the same time that it increased the demand for British goods to the extent necessary to remit the capital. The supply of capital by Great Britain to Canada, in fact, brought great benefit not only to Canada and Great Britain, but to many other countries. It stimulated the Canadian demand for American products thus increasing the buying power of the United States. The latter used a part of this extra buying power to purchase increased quantities of silk from Japan, coffee from Brazil, sugar from the West Indies, and of other products. In turn Japan used the additional buying power which her additional sales of silk gave her to purchase additional quantities of raw cotton from India. And the

latter used the additional buying power thus obtained to purchase additional manufactured cotton goods from Lancashire. British capital was thus placed in Canada by increasing the buying power not only of Canada, but of the United States, Japan, India, Brazil, the West Indies and of other countries. In greater or lesser degree the provision of capital to any country has similar consequences. It benefits both the lender and the borrower as well as all other countries whose selling and buying powers are enhanced by the currents of trade set up through its remittance.

The remittance of Reparations from Germany to France, Italy, Belgium and Great Britain has none of these advantages. The goods sent are not required for great works of construction nor for the expansion of the manufacturing power of these countries. The need of these countries to-day is not the import of great quantities of German goods, nor the sale of greatly increased quantities of German goods in foreign markets. Their need is to obtain markets for their own goods, including coal, and in so far as German Reparation goods reduce the already restricted buying power for their own products, they not only

gain no advantage whatever from their remittance, but they are seriously injured.

If conditions can be created which will enable France, Belgium, Italy and Great Britain to sell all the goods they are capable of producing, and to keep their factories and mines in full operation, which will also enable Germany to sell as much as she needs to sell in order to maintain her people in a condition of complete efficiency, and which will enable the countries from which she buys to maintain their prosperity, then the world demand for coal, electrical machinery, and other German products, may be sufficiently great to permit her to make Reparation payments without injury to the recipients. But the very existence of these demands upon Germany for the annual payment of such vast sums for an indefinite number of years militates against the creation of such conditions, and therefore renders it impossible to realise them.

Trade cannot become really active so long as the nations are threatened by the great exports from Germany which the Reparation payments render necessary. It can become active only when it is obvious that the supplies of all commodities will be no greater than the

demand, and when every nation is anxious about the adequacy of the supply of those things it desires to purchase and no longer fearful about its own ability to sell. •

So long as Germany is under obligation to sell £122½ millions of Reparation goods over and above the goods she must sell to live and to pay interest, the nations will continue to be frightened about their ability to sell their own goods in competition, and will endeavour to protect their home markets from being flooded with goods which they fear will be offered at prices below their own costs of production.

CHAPTER XIX

THE RESTORATION OF CONFIDENCE

THE problem of "Confidence" is one of the most difficult of all the problems to be solved. It is intangible and therefore less easy to grasp than the concrete problems of Trade Restrictions, Inter-Allied Debts and Reparations. Nevertheless confidence is the basis of prosperity. Without it credit is impossible, and without credit in its wider implications the supplies of new capital needed for the expansion of production cannot be created, nor in its narrower sense can banking money be supplied for the interchange of the goods produced. Indeed, without credit, business would be rendered impossible.

A universal breakdown of credit is the imminent danger now confronting the nations, and its prevention demands the co-ordinated action of the Governments and peoples of all countries. Confidence must be restored if the nations are to be preserved from almost irreparable disaster.

The effects of distrust and of credit breakdowns experienced from time to time in various parts of the world are well known. The most serious were those which resulted from the over-borrowing of the United States, Argentina and Australia in the late 'eighties, and which culminated in the unsound silver legislation in the United States, the Baring collapse and the Australian banking crisis. In all countries, and especially in the new, many corporations and individuals were unable to meet their obligations, trade became abnormally depressed, and there was widespread unemployment. That the effects of the distrust were not infinitely greater was due first to the action of the Bank of England and of the bankers of London in coming to the assistance of the Barings, and thus preventing their failure, and secondly to Mr. Pierpont Morgan and the bankers of America in coming to the assistance of the American Government by depositing a large amount of gold in the American Treasury at their own risk, and thus creating a fresh measure of confidence in the minds of the American public in the intrinsic value of American paper currency, confidence that subsequently was completely restored

by the action of the American people in returning to Congress a large majority in favour of "sound currency."

The injury to credit resulting from the over-borrowing of the new countries in the 'eighties was not fully overcome until the Australian banks were reconstructed, the finances of the South American countries readjusted, the United States pledged by their Congress to "sound currency," and the finances of a large part of the railways of America were reorganised.

Only when thoroughly sound conditions were restored, did confidence revive and it became possible to create the credit, both short and long, needed to permit production to be increased and trade to expand.

The effect of this partial breakdown of credit lasted for seven years, from 1890 to 1897, and was felt by every country. The price of food fell to a level which reduced the farmers of all nations to poverty. Cotton, wool and other raw material became so cheap that those who produced them had scarcely enough to live upon.

If the distress from a shock to credit was thus so severe and far reaching, what would

be the consequences of a complete breakdown of credit ?.

It is necessary only to compare the situation at the present time with that existing in the 'nineties to realise the nature of the crisis. Then some of the South American Governments were in difficulties : now most of the nations of Europe cannot meet their obligations. Then the banks of Australia were over-lent : now the banks of every country have great amounts of frozen assets. Then the railways of America and of Argentina had obligations they could not meet. now manufacturers, mine owners, merchants and farmers in every continent are in distress. But this is not the end of the comparison. In the early 'nineties the people of the United States were alone in applying a false remedy to a difficult situation; now the peoples of many nations imagine that their difficulties can be overcome by legerdemain rather than by strictly honourable and wise action, hard work and self-denial.

In the early 'nineties the difficulties were known to have resulted from unwise Governmental action : at the present time they are almost universally ascribed to business men who are in no sense responsible either for the

poverty and disorganisation caused by the war or for the policies pursued since the war, which have, indeed, brought them nearer to ruin than they care to contemplate. In the 'nineties the business men applied the remedies which the situation called for: at the present time matters are left to Governments whose policies tend to intensify the disastrous economic and financial effects of the war and which, unless completely reversed, will render inevitable a universal and complete credit breakdown with all its distressing economic financial and political consequences.

In this dangerous situation approval must be given to the British Government and the British people for the manner in which they have stood up to their difficulties and have met their obligations both home and foreign. Especially do they merit approval for the manner in which they have met their obligations out of taxation, and not by watering and depreciating their currency. The funding of the British debt to America and the return of Great Britain to the gold standard have undoubtedly assisted to promote confidence, and thus to postpone, if not to prevent, the collapse of the edifice of credit before remedial steps could be taken.

It is quite true that the return of Great Britain to the gold standard did increase the rate of real wages to British workers at the time that several of the Continental nations were reducing theirs by currency depreciation, and that from the narrow point of view of capacity to compete, the British industries were placed at a disadvantage. But when account is taken of the danger of a complete breakdown of credit, and the beneficent influence of the restoration of the £ (the chief medium of international exchange) to gold parity, the disadvantages of the one policy does not bear comparison with the advantages of the other. Moreover, had not an embargo been placed upon foreign and colonial issues of capital in the London market at the time of the British return to the gold standard, the beneficial effect of this step upon confidence and credit would have been still more marked. As soon as this embargo was withdrawn and credit was created more freely, there was distinct improvement in trade both in great Britain and elsewhere.

Nor can approval be withheld from Germany for the manner in which she accepted the Dawes Plan, and for her regular and

prompt payments under that plan. Her action has materially assisted to create the credit required both by herself and the other nations of Europe to purchase much needed foreign supplies of food and material in the past two years.

It is also very much to the good that politically the nations have begun to pursue policies one towards the other of a more reasonable and statesmanlike character. The Pact of Mutual Guarantee between France, Germany and Great Britain, the treaties of arbitration between Germany and other nations, and the entry of Germany into the League of Nations, with a permanent seat on the Council, are all steps in the right direction. Nevertheless taken collectively, the policies of the Nations, one towards the other, still leave much to be desired, and it is obvious that the Governments generally are still unaware of the economic danger they are creating for themselves as well as for others. Thus the Italian Government seems to think that the salvation of Italy depends upon territorial expansion at the moment when the financial position of Italy in common with the rest of Europe urgently demands a condition of profound peace.

Again the policy of Russia is difficult to understand, especially as the most urgent need of Russia is an ample supply of both long and short credit. It is quite true that the dispute in the British coal industry has materially assisted to prevent a European financial crisis in the past autumn by enabling Continental countries to sell great quantities of coal, steel and other products at high prices, thus giving them command of cash resources, largely at the expense of Great Britain, which otherwise they would not have possessed—resources which enabled them to meet a large amount of current indebtedness to their great relief. But the action of Russia in assisting British coal miners was not intended to strengthen the situation, but to render it more difficult; to destroy and not to promote confidence, even though the whole future of Russia is at stake.

Whatever policies Governments have needed to pursue in past days to attain their objects, these policies are mischievous when applied to a situation such as the present, a situation which demands the whole-hearted co-operation of all Governments in their own interest as well as in the interest of the peoples of every country. Of course it cannot be

denied that Governments in the past frequently obtained consideration from other Governments in so far as they were in a position to enforce their demands by any of the various means known to them, but when the nations are threatened by a common danger, the only possible policy is one of sympathetic understanding and co-operation.

The creation of the League of Nations for the purpose of adjusting political differences by agreement, and not by war, and the conclusion of the Locarno Treaties are events of great moment. Nevertheless the new principle of international co-operation has so far been confined to the settlement of isolated problems whereas it needs to be impartially applied to all the problems now confronting the nations. The spirit of sympathetic understanding must be displayed not only towards Germany, but towards all countries, if the present political causes of distrust are to disappear.

If the political action of the nations is still responsible for much distrust, notwithstanding the great change for the better in the past three years, the economic activities of the Governments are contributing to that distrust in a manner that has provoked the strongest

possible warning from the world's greatest bankers. There can be no confidence so long as the nations, almost without exception, are engaged in economic war and are hurting both themselves and others. Bankers and investors cannot supply credit to nations which are becoming impoverished by reason of their own policy. They can supply credit only to nations whose political, economic and financial policies afford convincing proof of their ability to honour their obligations and to give security for the capital supplied to them. The policy of trade restriction practiced by the European nations, to whom the Bankers' Plea specially referred, as well as by other nations in all parts of the world effectively prevents that restoration of confidence without which there cannot be the great expansion of production, trade and income which the situation demands. In pre-war days nations realised the need to pursue policies which would open to them one or other of the great money markets of the world. To-day with the money markets of Berlin, Vienna, and Paris practically closed to international requirements, it is of vital moment for the nations to adopt such policies as will

open to them those of London and New York. If a policy of financial rectitude was essential in pre-war days, it is infinitely more necessary at the present time.

Will the nations now realise the need of adopting and steadily pursuing policies that will restore to them their credit, and thus place them once again on the high road that leads to renewed and increased well-being ?

CHAPTER XX

THE EXPANSION OF BUYING POWER

THE great expansion of income which the situation demands for its adjustment can be brought about only by a great increase of buying power. At the present time the buying power of four-fifths of the people of the world is extremely limited. This is at once evident when comparison is made between the buying power of the American and European peoples respectively, and it is still more striking when the small buying power *per capita* of the vast populations of Russia, China and India is contrasted with that of America or even of Europe.

In the past century there has been great expansion of income, but it has been confined mainly to the new countries and to Europe. The application of steam and electricity to transport and to industry has been the chief cause of this increase. Where modern inventions have been introduced there has been the greatest expansion.

In the new countries the growth of income has been exceedingly rapid. In the first place there were virgin resources to be developed, and in the second there was every encouragement to employ labour-saving machinery. In Europe the growth of income has been greatest in the countries enjoying the most efficient systems of transport and using the largest quantity of machinery in proportion to their populations. This growth of income has been fostered by the power to exchange products with increasing freedom, both nationally and internationally.

The nations that have shown the least expansion of income actually and relatively to population have been those which have been slowest to introduce modern transport and labour-saving machinery.

The most hopeful factor in the present situation is the desire of all countries, both new and old, to increase the efficiency of their labour by the use of machinery, and thus to expand their productive power and with it their incomes. In view of this desire, production should increase even more rapidly than hitherto, and with it buying power, provided that measures be taken both locally and

universally to permit products to be exchanged with still greater freedom.

The supply of new machinery to enable the nations to expand and to distribute their productions would at once largely rectify the present situation, and as the productive power of the entire world expanded, wider markets would be created and the permanent income of all countries would increase. In other words the provision of credit in the form of investment capital for the construction of railways and other labour-saving appliances, where they can be profitably introduced, would at once cause a great expansion of demand for more manufactured goods, and the increased productive power which the new machinery would create would subsequently enable the increased income, which such demand would create, to be maintained and steadily to increase. But the capital needed cannot be raised unless bankers and investors, who alone can supply it, are convinced that no hindrances will be created to the free exchange of the additional produce by trade restrictions of any kind or description. The present policy of the nations in creating such restrictions is the greatest deterrent that exists to the investment of new capital for these purposes.

The amount of construction work to be taken in hand is unprecedented both in the new and the old countries. Even the United States, where railways are so numerous, require to spend great sums on adding new tracks and terminals to their vast railway system. And inasmuch as no new railways of any importance have been constructed since 1914, and as for more than twelve years no preparations have been made to provide for the world's increasing food requirements, new railways in agricultural countries in particular, are urgently demanded. Some idea can be obtained of the need of new railway facilities in many great countries by comparing their railway mileage with that of the American railway system. America, with an area of some three millions of square miles, possesses a railway system of over 260,000 miles, while Australia with an area of nearly three millions of square miles has a railway system of only about 27,000 miles. Argentina with an area of considerably over a million square miles has no more than 23,000 miles of railway, and Brazil with an area of three and a quarter millions of square miles, possesses about 19,000 miles of railway. The great nations of Asia stand in even greater

need of new railways, and their construction is likely to be even more advantageous India with an area of approaching to two million square miles and a population of about 320 millions, is now served by a railway system of less than 40,000 miles, China with an area of over four and a quarter millions of square miles and a population of some 400 millions, has no more than 9,000 miles of railway, and Russia, with an area of over eight millions of square miles, has about 45,000 miles of railway.

* Since 1914 not only has there been no preparation to supply the world's growing population with the food it requires, but a good deal of the work done prior to the war is now ineffective. Thus Russia and Roumania in pre-war days supplied the industrial nations of Europe with about 500 million bushels of cereals, whereas they are now supplying but a fraction of this amount, and notwithstanding the effort of other countries, especially America and Canada, to make up the deficiency, the quantity available for the consumption of Europe is on the average less than in pre-war days* When the great amount

*The valuable data supplied by the Institute of Agriculture at Rome of the world's production and consumption of agricultural products need to be most carefully studied at the present time

of new railway mileage constructed in the agricultural countries over a long period prior to the war, to expand the world's food supplies to the necessary extent, is considered, the neglect since 1918 of the nations to provide for their future needs is highly disturbing, and is in large measure responsible for the position in which Europe now finds herself from her inability to sell her products. In the event of a really deficient world-harvest the consequences to Europe of this neglect would be most grave.

On the general ground of creating demand for Europe's manufactures, and thus increasing her income, new railway construction in the agricultural countries should be taken in hand, but on the particular ground of preserving the European nations from food shortage it requires to be commenced at the earliest moment possible.

The countries in which production could be expanded more rapidly than in others are naturally those whose crops have declined. The restoration of the Russian and Roumanian output would probably involve the expenditure of less capital and have better and quicker results than the construction of railways in

the new countries, which have not surplus populations waiting for employment. Development work in all the food-producing countries should, however, be commenced without delay in order to preserve the nations from danger of food shortage, and to create the additional supplies which will enable the rapidly increasing demands of both Europe and Asia to be satisfied. Such action would bring about a great demand for manufactured goods of all kinds, but especially of iron and steel, and would thus relieve the situation by increasing the incomes of those nations and those industries which are in the greatest difficulty.

For the greater part of the century prior to the war railway construction played a prominent part in creating buying power and expanding income. When railway building was in active progress trade was brisk, and when it slackened off trade was depressed. In less than ninety years over 700,000 miles of railway were built, most of which were built in the sixty years prior to 1914, at an average rate of over 10,000 miles a year. In view of the cessation of this work since 1914, is there cause for wonder that the expenditure of capital upon war—capital which should have been

devoted to expanding the world's productive power, has brought about the present difficulty, and that Governments, manufacturers and workmen are all pursuing policies of trade restriction ?

The world to-day needs a vast expansion of its railway systems, of its productive power and of its income, not a policy of restriction, and as soon as this work of expansion is commenced in earnest there will be a great change in the situation.

With nearly three times as large a country as America, Russia requires a railway system several times greater than her present one, while the awakening and modernising of China with her vast population, should cause her infant railway system to expand into a large number of trunk lines crossing the country in every direction.

Again the new spirit that is being displayed in India should lead to the further opening up of that country, to cultivation and development by numerous lines of new railway. In Australia there is urgent need of new railways. In South America also very great expansion should take place as soon as the necessary capital is available. With the

United States no longer willing to admit immigrants freely from the Continent of Europe, a great stream of Italian and other peoples to South America should quicken the settlement of both Argentina and Brazil, and call for the construction of much new railway mileage.

In pre-war days Great Britain alone supplied some £200 millions of capital per annum to foreign and colonial countries for their development, more than half of the money being devoted to railway construction, while Germany, France and the other lending nations of Europe supplied nearly as much again, all of which increased the world's power to buy European goods. In these days Europe, including Great Britain, is supplying little or no capital to other countries, and her power to sell her goods is correspondingly reduced. Under these conditions is it not essential for Great Britain at any rate to endeavour to supply the capital of which the world is so much in need, and thereby increase world buying power and her own capacity to sell?

With the great populations of Asia now no longer content with their small buying power, and desirous to join in the great stream

of human progress in the same manner as the peoples of America and of Europe, a very great expansion in world production and in buying power should be witnessed.

In the past century, with only a small part of the peoples of the world willing to adopt modern methods of production and distribution, income and buying power increased some sixfold, how great would be the expansion in future if the peoples of the entire world, and more especially the vast populations of Asia were to abandon their old methods of locomotion and of production and to adopt the new! And if this great expansion of world production were attended by the removal of all restrictions upon trade, the many new ones created in recent years, as well as those which were in existence in pre-war days, with what rapidity would trade and income expand!

Furthermore, were the other handicaps to trade to be removed, including inter-allied debts and reparations, concurrently with the removal of all tariff restrictions upon trade and the grant of permanent credit for the expansion of world production, what an extraordinary change there would be in the situation!

With Europe relieved of her excessive burdens, with farmers, manufacturers, mine owners and others able freely to supply the people of the whole world with the products they need in exchange for what they themselves require, and with a liberal supply of credit for the expansion of production and distribution, there would be no difficulty in selling all the products that were available for sale or in bringing about the great expansion of income called for by the world's present situation.

All trustworthy signs indicate a very great change of outlook, and it is abundantly obvious that an unprecedented expansion of both buying power and income is in store for the nations as soon as they abandon their present policies and take advantage of the great opportunities which await them.

CHAPTER XXI

A FINANCIAL LOCARNO

THE imminent danger, threatening Europe in particular and the world in general, is financial. If it is not averted the consequences will be more disastrous than the failure to avert the political danger in 1914. A universal breakdown of credit in these days when the business of the entire world rests upon credit would stop supplies essential to life, and would bring the people of the densely populated countries of Europe, as well as of the great cities of all countries, face to face with starvation. It is this that makes the bankers' plea for the removal of restrictions upon trade a warning that must be heeded. They, the bankers, are the channels by which credit flows to every country for the movement of produce and for the increase of production. They, above all others, were aware of the actualities of the situation, and were under obligation to give warning of its danger. But they are powerless to apply the remedies.

Since 1914 business, as well as politics, has been controlled by statesmen who have no knowledge of the financial consequences of their actions. The danger with which the world is now confronted arises from their failure to understand the close interdependence of the nations in these days of credit, steam and electricity, and the injurious effects of a policy which seeks to enrich their own nation at the expense of others. •

That the warning of the bankers was also signed by the greatest manufacturers and merchants of Europe, and has been supported by the business men of all countries, through the action of the International Chamber of Commerce, adds to its significance and renders action still more imperative.

As in 1914, bankers and business men were powerless to prevent a political cataclysm, so now they will not be able to avert a financial catastrophe unless the peoples of every country realise the danger which confronts them.

In 1920 the League of Nations convened a Financial Conference to indicate the measures needed to repair the injury to the fabric of credit and of business caused by the war. The most important of the recommenda-

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tions of this Conference have been disregarded, and the policy since pursued has been in direct opposition to them. In place of economic co-operation there has been economic war, which has increased and not healed the injury. The League of Nations has now convened an Economic Conference to deal with the still greater financial danger that has grown. This Conference will have power to indicate the remedies—it will have no power to apply them. The responsibility will still rest with the statesmen.

The new spirit displayed by the statesmen at Locarno has brought Germany into the League of Nations. That same spirit has now induced the great bankers, manufacturers and traders of Europe, America and Great Britain to unite in a common effort to avert a common danger.

This spirit needs to be applied by the statesmen to the financial situation, and to the solution of all the problems which render it so dangerous, more especially to the question of Trade Restrictions. When each country is prepared to send its representative statesman to a second Locarno and with him its own special contribution to the adjustment of the

financial difficulties, the danger will be overcome—and not until then.

There are many problems to be solved, but no one of them is insuperable if the facts are faced and the statesmen are willing to take the action that complete knowledge of the problems should cause them to do to the advantage of all countries.

But it cannot be too clearly realised that whatever policies are adopted in the future, their present policies are carrying the nations into unprecedented danger.

CHAPTER XXII

THE SIGNATURES TO THE PLEA

THE full weight of the "Plea for the Removal of Restrictions upon European Trade," and the true character of its warning can be appreciated only by knowledge of the standing of the signatories. No warning ever published has been so grave, and as the signatures indicate, so authoritative

DESCRIPTION AND BUSINESS STANDING OF THE SIGNATORIES TO THE PLEA FOR THE REMOVAL OF TRADE BARRIERS

AUSTRIA

OSCAR BERL	Merchant
Dr OTTO BOHLER	Steel Manufacturer
Dr SIEGMUND BROSCHE	Chemical Manufacturer
Dr PAUL HAMMERSCHLAG	Oesterreichische Credit-Anstalt für Handel und Gewerbe
ALFRED HEINSHEIMER	Managing Director Vienna Bank-Verein
MAXIME KRASSNY-KRASSIEN	Chairman Niederösterreichische Escompte-Gesellschaft
Dr ARTHUR KRUPP	Berndorfer Metallwaren-Fabrik
JULIUS MEINL	Manufacturer
LUDWIG NEURATH	Oesterreichische Credit-Anstalt für Handel und Gewerbe
Dr REDLICH	Ex-Minister

AUSTRIA (continued)

Dr RICHARD REISCH	President Austrian National Bank
Baron LOUIS ROTHSCHILD	Messrs S M von Rothschild, Vienna
RICHARD SCHOELLER	Steelworks, Schoeller Blackmann,
RUDOLF SIEGART	President All Ost Boden-Credit-Anstalt
FRITZ TILGNER	President Austrian Chamber of Commerce
LUDWIG URBAN	President des Hauptverbandes der Industrie Osterreichs

BELGIUM

J CARLIER	Vice-President Council of Industry and Commerce
HECTOR CARLIER	Adm Del Banque d'Anvers
M DESPRET	President Banque de Bruxelles
CHARLES FABRI	Managing Director Banque d'Outremer
E FRANQUI	Vice Governor Société Générale de Belgique
F HAUTAIN	Governor Banque National de Belgique
J VAN HOEGAERDEN	Director-General S A d'Ougrée Marihay
J JADOT	Governor Société Générale de Belgique
O LEPREUX	Vice-Governor Banque National de Belgique
F M PHILIPPSON	Banker
R TILMONT	Director Banque National de Belgique
P TRASENSTER	President S A d'Ougrée Marihay
T WEINER	Vice-President Crédit Générale Leigois
PAUL VAN ZEELAND	Director Banque National de Belgique

CZECHO-SLOVAKIA

Dr JOSEF BARTON	President of the Czecho-slovak Textile Manufacturers' As- sociation
Dr O FIMLICHENFELD	Managing Director of the Bohmische Eskompt Bank
Dr HANUS KARLIK	President of the Central Associ- ation of Czecho-slovak Sugar Industry
Dr BOHUSLAV MARIK	Chairman of the Ceskomoravska- Koblen A G
IAN NOVOTNY	General Director of the Pramy- slova Bank
Dr VILEM POSPISIL	Governor of the Czecho-slovak National Bank
Dr JAROSLAV PREISS	General Manager of the Zinnostenska Bank
Dr VACLAV SCHUSTER	President of the Allgemeiner Bohmischer Bankverein
Dr ADOLF SONNENSCHNEIN	Director Vitkovice Iron Works
Dr EDUARD STUTZ	Vice-Chairman of the Bohmische Union Bank

DENMARK

A O ANDERSEN	Chairman of the Danish Steam- ship Owners' Association
C C CLAUSEN	Manager Privatbanken of Copenhagen
EMIL HERTZ	Manager Danske Landmansbank
ERNST MEYER	Chairman of the Marchants' Guild
Etatsraad FR NORGAARD	General Manager Copenhagen Handelsbank
P P PINSTRUP	Chairman of the Council of Agriculture
Lensbaron ROSENKRANTZ	Managing Director National Bank of Copenhagen

FRANCE

" Les soussignés, craignant que des passages du plaidoyer puissent donner lieu à certaines divergences d'interprétation, tiennent à préciser les points sur lesquels ils sont d'accord

" Ils estiment que l'état d'instabilité et de désordre économique dans lequel se débattent à l'heure actuelle les pays Européens a son origine dans les conséquences de la guerre et, en particulier, dans les crises monétaires qui en sont résultées. Ils croient que, pour éviter l'aggravation d'une situation inquiétante, il convient, avant tout que les pays où la monnaie n'est pas encore stabilisée s'acheminent le plus rapidement possible vers une monnaie saine. Ces pays le pourront d'autant plus aisément que les relations économiques entre les peuples seront rétablies sur des bases normales favorisant les échanges commerciaux

" Ils pensent, à cet égard, que l'élévation ou la rigidité excessives de certains systèmes tarifaires, les exagérations directes ou indirectes de protectionnisme, de discrimination ou de préférence, les obstacles apportés aux transactions internationales, par des réglementations abusives des transports, doivent être condamnés

" Ils se déclarent en conséquence favorables à toutes mesures qui tendraient à la suppression de telles barrières artificielles, qui s'opposent à la libre reprise des relations économiques d'avant guerre entre les nations

" Ils ne sauraient, en effet, oublier qu'il est impossible à aucun Etat moderne de vivre et de prospérer sans entretenir avec les autres Etats des rapports commerciaux et que, par suite de l'étroite interdépendance entre les peuples, ce n'est que par un échange mutuel de services de crédits et de marchandises que l'équilibre économique mondial peut être finalement obtenu "

R P DUCHEMIN

Président de la Confédération
Générale de la Production
Française, Président de
l'Union des Industries
Chimiques

HORACE FINALY

Directeur Générale de la Banque
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FRANCE (continued)

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M LEWANDOWSKI	Administrateur-Directeur du Comptoir National d'Escompte de Paris
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H DE PEYERIMHOFF	Président du Comité Central des Houillères de France
P RICHEMOND	Administrateur de la Banque Nationale de Crédit, Président de l'Union des Industries Métallurgiques et Minières
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Geheimrat FELIX DEUTSCH	Chairman General Electric, Berlin
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Dr SCHACHT	President of the German Reichsbank
KARL FRIEDERICH VON SIEMENS	Chairman Siemens Bros, Berlin
FRANZ URBIG	Disconto Gesellschaft, Berlin
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GREAT BRITAIN

SIR ARTHUR BALFOUR	Chairman Arthur Balfour & Co, Ld, Sheffield
HENRY BELL [*]	Director Lloyds Bank, Ld
SIR HUGH BELL, Bart	Ironmaster
LORD BRADBURY	Director Williams Deacons Bank, Ld
WILLIAM CARNEGIE	General Manager National Bank of Scotland, Ld
W H COATS	Chairman J & P Coats, Ld
SIR JOHN COWAN	Chairman, Redpath Brown & Co, Ld
LAURENCE CURRIE	Glyn, Mills & Co
F C GOODENOUGH	Chairman Barclays Bank, Ld
NORMAN L HIRD	General Manager and Director Union Bank of Scotland, Ld
ROBERT M HOLLAND-MARTIN, C B	Chairman Bank of Liverpool & Martin's, Ld
WILLIAM HOWARTH	President Textile Institute
LORD INCHCAPE	Chairman Peninsular & Oriental Steam Navigation Co, Ld
LORD INVERNARN	Chairman W Beardmore & Co, Ld, Glasgow
WALTER LEAF, D Litt	Chairman Westminster Bank, Ld
KENNETH LEE, LL D	Chairman Tootal, Broadhurst, Lee & Co, Ld
SIR FREDERICK LEWIS	Chairman Furness, Withy & Co, Ld
LORD MACLAY OF GLASGOW	Shipowner
ANDREW McCOSH	Chairman William Baird & Co, Ld
Rt Hon REGINALD MCKENNA	Chairman Midland Bank, Ld
SIR ADAM NIMMO	Chairman of the Scottish Coal Owners' Association
Right Hon MONTAGU COLLET NORMAN	Governor Bank of England
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J W BEAUMONT PEASE	Chairman Lloyd's Bank, Ld
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LORD REVELSTOKE	Baring Bros & Co, Ld
ALEXANDER ROBB	General Manager Commercial Bank of Scotland, Ld
LIONEL N DE ROTHSCHILD	N M Rothschild & Sons
SIR FELIX SCHUSTER, Bart	Director of the National Provincial Bank, Ld
GEORGE J SCOTT	Treasurer and General Manager Bank of Scotland
SIR JOSIAH STAMP	President of the Executive of the London, Midland and Scottish Railway
SIR D M STEVENSON, Bart	Ex Chairman British Coal Exporters' Federation
REES GRIFFITH THOMAS	General Manager British Linen Bank
DOUGLAS VICKERS	Chairman Vickers, Ld
LORD WEIR	Weir & Co, Glasgow
SIR GLYNN H WEST	Chairman Rylands Bros, Ld
WILLIAM WHITELAW	Chairman London and North Eastern Railway
Col F VERNON WILLEY	Francis Willey & Co, Ld, Bradford
SIR PERCY WOODHOUSE	President Manchester Chamber of Commerce
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PAUL MAY	Lippmann, Rosenthal & Co , Bankers
Dr W A MEES	R Mees & Zoonen, Bankers, Rotterdam
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HUNGARY

ANTHONY EBER	General Manager Hungarian Italian Bank
CHARLES DE ERNEY	General Manager First National Savings Bank
HENRY FELLNER	Chairman First Hungarian Steam Milling Co , of Buda- pest
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Baron MAURICE KORNFELD	Director National Bank of Hungary
Baron PAUL KORNFELD	Director Hungarian General Credit Bank
Baron MARCEL MADARRASSY-BECK	President Hungarian Discount and Exchange Bank
EMIL MUTSCHENBACKER	Managing Director Hungarian Agricultural Union
Count LADISLAS SOMSSICH	President Agricultural Union
Exc JOHN TALESKY	Ex-Minister of Finance

ITALY

" The undersigned, whilst signifying their agreement with the spirit which has dictated the above manifesto, wish to place on record that had it been possible for them to co-operate in the framing of the document, they would have preferred to give a different and more precise form to some of its passages. Above all, they would have liked that criticism should have been exercised not only as regards the excessive height of customs tariffs and the rigidity of customs regulations in force in some countries, but also in respect of all the numerous forms of direct or indirect protection, discriminations or preferences, artificial subsidies and restrictions on emigration.

" With such reservations they willingly subscribe to the manifesto "

G. AGNELLI	President " Fiat " Co
ANTONIO STEFANO BENNI	President of the General Fascist Confederation of Italian Industries
BIAGIO BORRIELLO	Vice-President Union of Chambers of Commerce
ETTORE CONTI	Senator and Industrialist
RICCARDO GUALINO	President " Sma Viscosa "
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NICOLA PAVONCELLI	President of the Board of the Bank of Italy
ALBERTO PIRELLI	President Association of Italian Corporations
L. TOEPLITZ	Administrator Banca Commer- ciale Italiana

NORWAY

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E. G. BORCH	President of the Royal Agri- cultural Society of Norway
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JOH. LUDW. MOWINCKEL	Shipowner and Ex-Prime Minister
N. RYGG	President of the Bank of Nor- way
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VICTOR MOLL	Governor Bank of Sweden
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SWITZERLAND

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LEOPOLD DUBOIS	Chairman Société de Banque Suisse
ALBERT LOMBARD	Vice-President Swiss Associa- tion of Bankers
RUDOLF SARASIN	President Chamber of Com- merce, Basle
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